

**FOREIGN CAPITAL
IN POLAND**

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FOREIGN CAPITAL IN POLAND

by

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With a Foreword by

THE LORD KENNET OF THE DENE

P.C., G.B.E., D.S.O., D.S.C.

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FOR E W O R D

*By THE LORD KENNET OF THE DENE
P.C., G.B.E., D.S.O., D.S.C.*

WE are, or we ought to be, grateful when someone provides us with the means of accurate and complete knowledge about something which we want, or ought to want, to know about: and so we should be grateful to anyone who does that for us, on the subject of Poland in general and of foreign capital in Poland in particular. We are the more grateful when he who undertakes the task for our benefit has not only the qualities of mind necessary to its successful performance, clearness, accuracy, a sense of relevancy, and a temperate judgment, but brings to it also the practical experience which warms up cold facts. So we say, or we ought to say, "thank you" to M. Leopold Wellisz, the managing director of a large manufacturing firm, for this book of his.

"We" in these sentences are those who want to know about Poland (and they are many), or about foreign capital in Poland (and they are not so few as might be supposed).

There is no need to pretend that M. Wellisz's book is other than technical and severely practical. There is no poetry here, but such poetry as can be pressed from figures; there is no

romance, but whatever romance there may be in the adventures of capital, running the gauntlet amidst many changes and chances. The author has a purpose to serve which can best be served with bare facts, well chosen and well arranged, and he serves it well.

The book, as I understand the author's intention, is meant in the first place for those who have occasion to ask themselves "what sort of country is Poland?" Historians, critics, poets, publicists tell him "it is such and such": and when they have done, M. Wellisz comes to tell them "this is what it has with which to produce wealth, this is how it is developing what it has, and this is what it needs to further the development." The complete answer to our inquirer's question must be given by many people speaking with many different sorts of knowledge. The single component part of the answer which this little book provides is not the most attractive part, but it is a very necessary part. Economic knowledge is not so attractive as political, historical, or literary knowledge, but it is even more necessary to the understanding of the present state of a country, and of the present thoughts and actions of its people. It is particularly necessary to the understanding of a new State, and reborn Poland is practically a new State. In old States, like our own, there is little that is not known about the wealth which

can be produced and what is needed for its production. In a new State, like Poland, it is otherwise. Such matters are a constant source of speculation to the people of the country, and the ups and downs of their hopes and fears on the subject are responsible for much in their changes of mood.

In the second place, the book is intended, no doubt, particularly for those who are directly concerned in business with the investment of capital. When they have occasion to ask themselves, "shall I invest my own money, or someone else's, in Poland, and if I do, shall I invest it in this way or in that?" they will find here the information needed to answer their own question with knowledge, and not by guesswork.

The City of London is still the most important clearing house of capital for international investment, and it seems likely to remain so, for the foreseeable future. Anyone who has watched the directions in which the City has turned the stream of foreign investment of late years, and has noted its successes and its failures, must have a very clear idea how necessary it is, and how strong an obligation it is to the investor, that investments should be made only on an adequate basis of information about the economic and financial record in the past, and condition in the present, of the country where the investment is made. In the case of Poland

the means of the knowledge which is necessary for this purpose is provided by M. Wellisz's book.

Twelve years ago, when I went to Poland on a financial mission to advise the Polish Government, I sought eagerly for the information which this book supplies and I could not find it. There were fragments of information left behind, as it were, by the German, Russian, and Austrian systems, but nothing that threw any effective light on the new problems of Poland as an integral economic unit. That the information can now be provided, and that a leading industrialist is ready to provide it, is a measure of the development and consolidation of the State in the interval, and of the growing richness of its industrial and economic culture. Since a vigorous, stable, and contented Poland is a guarantee of stability in Europe, how warmly we must welcome such signs of her prosperity and join in M. Wellisz's concluding wish, that the strengthening of financial ties between nation and nation may strengthen also the foundations of peace.

May 1938

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INTRODUCTION

THE steady growth of the economic and political importance of Poland, coupled with the considerable sums of foreign capital already invested in that country, make it appear timely and useful to examine the part played by such capital there. At the same time it will be instructive to investigate the reasons which have prompted foreign capital to enter the country, to examine the sources, scope, and forms of this influx, and to report on the conditions under which it works in Poland. Finally, it has been deemed of interest to outline what further prospects there are for foreign capital in that country.

The subject has been dealt with in descriptive and statistical fashion, without any close analysis of the political and economic significance of the role already played by foreign capital in Poland.

It is believed that the information contained in this study will be of service not only to those who have already invested capital in Polish securities—a detailed description is given of the more important Government bonds and other long-term scrip—but also to those who are interested in Poland and wish to obtain a general idea of that country's economic structure and situation.

The author's acknowledgments and thanks are due to so many persons and institutions, both private and public, for help and collaboration in compiling the information and material contained herein, that it is not possible to mention them all individually. This should not be construed to mean any lack of gratitude, but that simply considerations of space and the impossibility of establishing any order of precedence rule out the extending of thanks in more formal form.

GENERAL REMARKS

THE sums quoted herein are for the most part expressed in Polish zlotys or in pounds sterling. The principle has been followed of fundamentally giving data in respect of economic life in Poland in zlotys, and in sterling (solely or in addition) only when it is desired to lay special stress or to bring out the essential nature of the more important material. Comparative figures covering longer periods of time have, however, not been computed in sterling as the zloty rate has undergone no changes since 1927, whilst sterling has been divorced from the gold standard. The expression of zloty sums in pounds sterling by the application of the various rates of exchange would in many cases possibly lead to mistaken conceptions as to the actual development of the aspects of economic life dealt with herein.

The tables of international comparative data mostly contain values expressed in sterling. Other currencies have been given only when advisable, for instance, in the case of foreign bond flotations originally issued in such currencies.

The zloty has a stable gold parity ($5,924\cdot44$ zlotys are struck from one kilogramme of pure gold). The average annual sterling quotations on

the Warsaw Bourse are given below for the years 1928–1937:

<i>Year</i>	<i>Rate per £ in zlotys</i>
1928	43·4 (parity)
1929	43·3
1930	43·4
1931	40·5
1932	31·3
1933	29·6
1934	26·8
1935	26·0
1936	26·3
1937	26·4

The statistical data contained herein are for the most part based on the materials of the Chief Bureau of Statistics of the Republic of Poland, whose publication, the *Concise Statistical Year-book of Poland*, has been freely quoted in the following pages; the Year-book is published annually in English and French. In those cases where the statistical data have been taken from other sources, appropriate references have been given.

The data given herein are based on the latest available material published up to the end of 1937.

FOREIGN CAPITAL IN POLAND

CHAPTER I

INSUFFICIENT CAPITALIZATION: THE MAIN CAUSE OF POLAND'S DELAYED ECONOMIC DEVELOPMENT

POLAND recovered her independence after the Great War; up to the end of the eighteenth century she had been one of the largest countries of Europe, and to-day she again occupies the fourth place on the Continent in respect of population (34·5 million), and fifth place in respect of area (149,360 square miles).*

For more than a hundred years—just at the era when modern capitalism was arising and developing—the various territories of the country constituted relatively small parts of three large empires which had partitioned Poland amongst themselves. These maintained and conducted economic policies which disregarded the needs of the Polish population; as if realizing

* In all cases where comparative numerical data on European countries are furnished, the Soviet Union has been excluded from consideration unless otherwise stated.

the limited duration of their rule over Polish soil, they consistently neglected the economic interests of their Polish territories.

As a result, the growth in the prosperity of the Polish population and a rise in the accumulation of capital proceeded very slowly, in this respect leaving Poland far behind the countries of Western Europe. In addition, all the public utility works necessary for raising the standard of life of the population and facilitating the development of economy (such as means of communication, electrification, rational town planning, etc.) were neglected in comparison with the progress made by the countries of Western Europe in keeping up with the exigencies of civilization.

Quite naturally, the economic reconstruction of restored Poland and the unification of the Polish territories, which formed part of three separate empires during the nineteenth century, demanded great efforts and very considerable capital. The capital at the disposal of the Polish nation, especially working capital, was found, however, to be most insufficient.

Of the fundamental factors upon which the degree of prosperity of every country depends, i.e. the composition of the population, area and natural wealth of the territories and capital, as will be shown later, only the last-named has been inadequate to enable Poland to attain a level of

material prosperity equal to that of the other great countries of Europe, whose equal she is in point of the old traditions of her civilization, culture, and historical mission as the eastern outpost of the western Christian world.

A. POPULATION OF POLAND

The enormous majority of the population of Poland is composed of elements which are distinguished for their intelligence, industry, tolerance, lack of radical leanings, and absence of extreme trends in any direction whatsoever.

ORGANIZING ABILITIES

The organizing abilities of the Poles have been fully shown in the swift setting up of the internal administration of the new Poland, based solely on their own resources and man-power in spite of the lack of qualified and experienced public servants, as it was only in the part of Poland formerly within the Austro-Hungarian Empire that Poles were allowed to act in that capacity.

The rapid formation of a powerful army, the speed with which the disorganized railway service was reconstructed, the excellent development of aviation, the building of the Port of Gdynia as a great maritime harbour within less

than ten years—all these facts afford sufficient proof of the creative abilities of the nation.

The enormous growth and extension of the school-system in every domain since Poland has recovered her independence assures adequate instruction and educational facilities to the youth of the country. The care which the Government devotes to vocational instruction and training and to the development of the academic schools is fully in line with the traditions of the ancient Commonwealth of Poland ; it also assures an adequate supply of specialists for every branch of human activity.

QUALIFICATIONS OF POLISH WORKERS

Even in pre-War times, the Poles were widely known as tireless and intelligent workers in the most varied occupations.

It will suffice to recall that the agricultural seasonal workers of Poland well before the War were the mainstay of German agriculture, and that hundreds of thousands of them proceeded to Germany for that purpose year after year. To-day hundreds of thousands of Polish workers furnish the skilled help engaged in the collieries of France, Belgium, and Germany, apart from the large number working on the farms of France. The petroleum-well drillers of South Poland are to be found in most oil-producing countries where they are prized as expert and

experienced drillers of wells to a depth of as much as 3,000 feet. Henry Ford, in his book *My Life and Work* (Heinemann Ltd., London, 1937, p. 100), writes that his Polish workers distinguished themselves by their inventiveness and ability.

Thanks to the organizing abilities of the Poles in trade and industry, they played an important role before the War in many branches of economic activity in Russia, in particular occupying the chief executive positions in the beet-sugar industry, in railway construction, in the metallurgical industries, and in banking. In other parts of the world, too, there were many Poles occupying high positions of trust and authority: professors of Swiss universities, directors of banks in the Far East, managers of petroleum fields in the Dutch East Indies, founders and directors of sugar refineries in Manchuria, bank-managers and engineers in France, etc. This will in some measure explain why the Poles were able upon recovering their independence not only efficiently to set those divisions of economic life into operation which had been immobilized during the War, but also with but little help from foreign specialists quickly to organize and develop various branches of industrial and manufacturing production which had not existed in Poland before. These included many branches of chemical and mechanical pro-

duction requiring great organizing qualifications and skilled workpeople for the operation of often highly complicated machinery.

NATURAL INCREASE

The population of Poland is marked by its great vitality. This is evidenced by the high rate of natural increase, one which is much higher than that of any other country in Western and Central Europe, and which causes the population of Poland to increase by over 400,000 head every year.

NATURAL INCREASE OF POPULATION IN CERTAIN COUNTRIES

Per 1,000 Inhabitants in 1935

Poland	..	..	..	12.1
Czechoslovakia	..	..	..	4.3
Germany	..	..	..	7.1
Belgium	..	..	..	3.8
United Kingdom	..	..	..	3.2
Austria	..	..	..	0.4
France	..	..	..	-0.5

There is therefore no lack of hands for work in Poland. The considerable growth in the population expressed by an increase of four millions or more every ten years can be said to be the basis of the economic development of Poland and of her status as a Great Power; as such, however, it demands an intensified increase in capital investments in order to assure the constantly growing number of citizens such

conditions of life which would satisfy the exigencies of modern civilization, especially in the face of the almost total curtailment of emigration at the present time owing to immigration restrictions in other countries, and to the fact that Poland has no colonial territories of her own.

OCCUPATIONAL DISTRIBUTION OF THE POPULATION

The great majority of the population of Poland (about 61 per cent) is engaged in agriculture, forestry, and fishing; 19 per cent work in mining and industry; 6 per cent in trade; 3·5 per cent in communication; and 10·5 per cent in other occupations, according to the general census of 1931.

This state of affairs, consisting in an excessive number of persons engaged in agriculture, is quite distinct from the conditions of life in Western European countries as can be seen from the table on page 26, and is characteristic of countries suffering from lack of capitalization. The dynamics of the occupational structure of the population of Poland has during the last few years been evincing a marked shift towards industrialization in spite of the inhibitive influence of the depression. Thus, according to the general census of 1921, 64 per cent of the

OCCUPATIONAL STRUCTURE OF POPULATION IN CERTAIN COUNTRIES
(Percentages)

Countries	Census years	ACTIVE AND PASSIVE POPULATION					Com- muni- cation and occupa- tions	Not gain- fully occu- pied
		Total	Agriculture, forestry and fishing	Mining and indus- try	Trade and insur- ance	Other occupa- tions		
Poland ..	1931	100·0	60·9	19·2	6·1	3·6	6·9	3·3
Finland ..	1930	100·0	59·4	16·6	4·1	3·7	11·8	4·4
Sweden ..	1930	100·0	34·8	31·5	9·3	7·0	10·0	7·4
Czechoslovakia ..	1930	100·0	34·5	34·6	7·1	5·5	10·0	8·3
Austria ..	1934	100·0	27·3	30·1	9·6	5·4	12·9	14·7
Switzerland ..	1930	100·0	22·7	41·1	11·9	5·5	10·9	7·9
Germany ..	1933	100·0	20·9	38·8	10·8	6·2	9·8	13·5
Finland ..	..	1930	100·0	60·6	13·8	4·2	2·8	12·4
Italy ..	..	1931	100·0	39·2	24·4	6·9	3·6	8·7
France ..	..	1931	100·0	34·5	32·8	12·1	5·7	11·5
Czechoslovakia ..	..	1930	100·0	34·2	32·3	7·2	3·7	12·1
Austria ..	..	1934	100·0	26·0	27·5	9·9	3·7	15·1
Germany ..	..	1933	100·0	24·5	34·2	11·5	4·1	10·4
U.S.A. ..	..	1930	100·0	22·0	31·6	8·2	15·5	22·7
United Kingdom ..	1931	100·0	5·2	42·8	17·4	7·3	19·8	7·5

Note.—Dissimilar methods of occupational classification, primarily dissimilar modes of treating the "helping" members of families, greatly reduce the comparability of the data for the various countries in that part of the table dealing with the active population.

population was engaged in agriculture, forestry, and fisheries in that year and barely about 15·5 per cent in industry. Further evidence of this process is furnished by the data on urban population in Poland; here, a sharp increase is also visible—from 6·6 million souls (24·6 per cent of total population in 1921) to 8·7 million (27·2 per cent of total population in 1931). None the less, Poland is, of course, still a predominatingly agricultural country. The large agricultural production and the excess of rural population are responsible for a low cost of living and cheap labour—two elements which facilitate the development of industry.

DENSITY OF POPULATION

The density of population in Poland is on the average 216 persons per square mile. The fluctuations between the various districts are, however, very considerable; the figure for certain of the eastern, marshy regions is as low as 49 persons to the square mile as compared with 461 per square mile and more in the industrial zones and densely populated rural areas of southern and western Poland. The average density of population is approximately twice that of Europe taken as a whole and including the Soviet Union; but Poland is much less densely populated than many more indus-

trialized countries, such as the United Kingdom (497), Germany (369), Italy (356), Belgium (705), and Holland (637). It has, however, a higher density than Austria (211) and France (198).*

B. TERRITORY AND NATURAL WEALTH

The territory of Poland, viewed from the standpoint of good conditions of life for its inhabitants, is on the whole propitious to the growth of prosperity. It lies within the north temperate zone, and consists of a great plain having but rare undulations in surface configuration, with an average altitude of 732 feet above sea-level. The only natural barriers are the mountain chains in the south, but otherwise there are no obstacles to the development of the various means of communication; the territory of Poland therefore offers excellent facilities for the development of rational networks of waterways, highways, and railways at a relatively low cost of construction.

Polish soil for hundreds of years, Poland's sea-coast, though only 87 miles long, affords direct communication with the whole world, thus assuring to Poland unhindered facilities for an exchange of goods.

* The data are for the year 1934.

SOIL AND AGRICULTURAL PRODUCTS

The soil of Poland is for the most part arable and fertile. In respect of arable land, Poland occupies third place in Europe after France and Germany.

Poland is an important producer of certain agricultural crops, occupying third place in the world, after the Soviet Union and Germany, as a producer of potatoes and rye, and second place, after the Soviet Union, in the production of flax and hemp. Poland has the highest number of horses of any country in Europe.

Poland is not only self-sufficient in respect of foodstuffs, but disposes of a considerable exportable surplus, the sale of which, however, is hindered by the autarchic regulations of other countries. None the less, in 1935-36 Poland occupied first place in Europe as an exporter of rye and barley, and third place as an exporter of eggs and bacon.

EXPORTS OF RYE AND BARLEY IN 1,000 QUINTALS

Countries	Rye		Barley	
	1933-34	1935-36	1933-34	1935-36*
Europe: total	..	10,812	5,231	10,440
Poland	..	4,753	2,169	6,710
Germany	..	3,150	372	—
Roumania	..	—	158	3,505
			6,647	1,844

Source: *Bulletin Mensuel de Statistique Agricole et Commerciale de l'Institut International d'Agriculture*, Rome.

* Operating year: from August 1st to July 31st.

MANUFACTURING INDUSTRIES WORKING UP AGRICULTURAL PRODUCTS

As a result of the abundance of crops in Poland, a number of foodstuff industries have arisen which fully satisfy the needs of the population, and in addition are important factors in the export trade. Chief amongst these are: flour-milling, potato-starch manufacture, brewing, and alcohol distilling. The last-named, in view of the great abundance of potatoes, is of special significance, and has excellent chances of further development, although the alcohol production of Poland is at present one of the highest in Europe. This manufacturing output, as in other branches of agricultural production mentioned above, has not attained full development solely owing to the import restrictions enforced by virtually every country in the world.

Suitable climatic conditions, favouring the development of sugar-beet cultivation, have during the last hundred years helped to build up a large beet-sugar industry in Poland (up to recent times fourth, and to-day fifth in Europe as regards output, after Germany, France, Czechoslovakia, and Great Britain); Poland occupies an important position as a world exporter of beet-sugar and sugar-beet seed.

The development of pig-breeding in Poland since the War has furnished a natural basis for

the enormous growth of the bacon and cured meat industries, the export of which has assumed fairly large proportions.

WORLD EXPORT OF BACON TO THE UNITED KINGDOM,
IN THOUSAND CWT.

Countries	1933	1934*	1935	1936
Poland ..	784	463	430	408
Holland ..	872	608	509	484
Denmark ..	5,524	4,288	3,826	3,373
Total ..	9,084	7,598	6,925	6,569

Source: *Accounts, Trade and Navigation of the United Kingdom, 1936.*

The abundance of hides and skins has furnished a basis for the rise and development of a tanning industry, as also of a footwear manufacturing industry which, both in factory and in artisan production, had reached a high quantitative and qualitative level even in pre-War years.

Thanks to favourable conditions of climate and soil, Poland has great possibilities in the domain of flax production and export, the more so as much systematic work is being done by the Government and by the community in raising the quality of this raw material. In connexion with this, industrial flax spinning and

* The decline in this export since 1934 has been caused by the policy of preferential treatment and by the safeguarding measures for the protection of home production introduced by the Government of the United Kingdom.

linen weaving, concentrated in only a few factories before the War, has developed greatly during the past few years.

FORESTS

Poland has large areas under timber (mostly pine, spruce, fir, oak, beech, and alder), and, after Finland and Sweden, is the largest exporter of timber and wooden products in Europe.

TIMBER EXPORTS* IN EUROPE

(In 1,000 cubic metres)

Countries				1935	1936
Europe	..	..	..	25,548	25,487
Finland	..	..	..	8,309	8,620
Sweden	..	..	..	4,058	4,434
Poland	..	..	..	3,046	2,912

Source: "Exportations Européennes de Bois." *Bulletin Mensuel de Statistiques C.I.B. (Comité International du Bois)*, Vienna, 1936.

An important timber industry has developed in Poland, thanks to her forest wealth. The industries producing plywood and bentwood furniture are important exporters. The cheapness of wood has also favoured the development of a paper-making industry which already virtually satisfies the needs of the home market, and finds a constantly growing foreign demand.

* All roundwood and semi-worked wood embraced by the international timber trade.

MINERAL RESOURCES

The mineral deposits of Poland include large reserves of coal, zinc and salt, as also deposits of crude oil, lead, potassium salts, and iron ores.

COAL-MINING

The coal reserves of Poland are exceptionally large. The accuracy of all geological estimates of mineral reserves is at the best relative, but it can be stated that conservative and reliable estimates give the figure of Poland's coal reserves as 160,000 million tons. This figure is in any case undoubtedly greater than that of any other country on the Continent, and approaches the corresponding approximation for Great Britain.

The locations of the coal seams in Poland are most favourable in respect of depth and safety of exploitation, and for this reason the possibilities of a further development of coal-mining there are enormous. At present, Poland occupies seventh place in the world and fourth place in Europe as a producer of coal.

The coalfields of Poland comprise a single entity, formerly artificially divided up by three Powers: Upper Silesia under Germany, the Dąbrowa basin under Russia, and the Cracow basin under Austria.

The heterogeneity of the types and qualities

C

of Polish coal is a factor favouring export, and this trade, thanks to the energy of the Polish mine-owners and the collaboration of the Government, occupies an important position in the world coal trade.

METALLURGICAL AND METAL INDUSTRIES

Various industries have arisen within the coal-mining districts of Poland, such as the coking industry (and manufacture of chemicals from the by-products of coal), an important foundry industry, which is based upon the ores furnished by the near-by iron-ore mines and the cheap coal and coke available locally, followed by a very differentiated metal industry, including casting, machine construction, production of means of communication, sheet-metal output, rolling mills, etc.; all these industries, however, have also attained a high state of development in other parts of Poland.

ZINC

The mineral coming next in importance in point of quantity is zinc-ore. Poland's production of zinc fluctuates between 8 and 13 per cent of the total world production, being third after the United States and Belgium (and in some years fourth after Canada or fifth after Germany). In connexion with this an important zinc manu-

facturing industry has arisen near the zinc deposits which produces zinc and galvanized sheeting, etc.

SALT

Poland has enormous reserves of salt, which have been exploited for many centuries past; they are estimated at 6,000 million tons, and assure the satisfaction of the country's needs for thousands of years to come. These deposits of salt, in conjunction with coal and petroleum, furnish a sound, natural foundation for an important chemical industry which has for that matter been developing with increasing speed ever since the re-establishment of the independence of Poland.

POTASSIUM SALTS

Poland is one of the few countries in Europe possessing deposits of potassium salts; the estimated reserves have been calculated in the case of Poland to be about 450 million tons. About 400,000 tons are extracted annually.

CRUDE OIL

Excluding the Soviet Union, Poland and Roumania are the only countries in Europe which possess important deposits of petroleum.

The extraction of crude oil in Poland, although relatively small when compared to the figures of

world production, fully suffices to cover the needs of the home market, and even yields a surplus which is exported, chiefly in the shape of petrol (gasoline) and paraffine.

NATURAL GAS

The South Poland (Galician) oilfields have large and still relatively little exploited deposits of natural gas. This gas is used both as a source of energy and as the raw material for the production of gasoline and other chemical products.

The extraction of natural gas in 1937 amounted to 530 million cubic metres. In order to utilize the reserves of natural gas available, the existing inadequate system of long-distance gas-pipelines is being extended. Of recent times a pipe-line has been built serving the Krosno-Jasło-Mościce line (about 50 miles); it serves to supply the nitrogen-compound works at Mościce with fuel gas, and in time is to cover further regions. Branch lines to the new Central Industrial Zone are being constructed.

MINERAL WATERS AND SPAS

Poland possesses a very varied collection of curative and medicinal waters (especially in the southern provinces of the country), which in a great measure are not so widely known abroad as they should be. The springs are for the most part in the sub-mountain districts amidst

beautiful surroundings, and with a healthy climate.* They have therefore every chance of further development both as health resorts, winter sport and tourist centres; the exploitation of the natural mineral waters should also greatly develop with time.

OTHER MINERAL PRODUCTS

Large deposits of clay and limestone are to be found in virtually every district in Poland; they are responsible for such a development of the brick-making and lime industry as also of large-scale cement and ceramic-ware industries, that Poland is in a position fully to cover all present and future needs of the building industries. Thanks to favourable natural conditions, the manufacture of glass is also well-developed, as is also that of enamelled-ware, the latter being an important export item in Poland's foreign trade.

LIMITS OF POLAND'S ECONOMIC SELF-SUFFICIENCY

In general it can be stated that Poland's territorial conditions (and, as stated already, the number and qualifications of her inhabitants) have made it possible to undertake production

* Krynica, Rabka, Inowrocław, Truskawiec, Żegiestów, Szczawnica, Morszyn, etc.

in almost every division of output necessary to meet the needs of a civilized people.

Poland's economic dependence upon other countries is restricted to a few of the noble and semi-base metals (gold, copper, nickel, tin, etc.), tropical and sub-tropical foodstuffs, certain textile raw materials, some types of leather and certain manufactured goods (such as motor cars), as also types of machines and technical articles whose production has not yet been commenced in Poland owing to patent protection or to the over-small demand on the home market.

Poland's dependence on foreign suppliers is for the most part limited to the domain of raw materials: the import of raw materials and of other commodities for further manufacturing constitutes nearly 70 per cent of the total import trade.

But in every consideration of the import possibilities of Poland it is always necessary to bear in mind that she is a debtor country and is obliged to transmit considerable sums to other lands every year in respect of the service of public and private indebtedness. For this reason, Poland's import should of necessity be smaller than her export, unless, of course, an influx of foreign capital relieves the situation. This will explain why Poland had steadily to aim at a favourable balance of trade since the import of fresh capital has been held up by the world-wide financial crisis.

POLAND'S FOREIGN TRADE IN 1928-1937

(In million zlotys)

Description	1928	1929	1930	1931	1932
Imports ..	3,362	3,111	2,246	1,468	862
Exports ..	2,508	2,813	2,433	1,879	1,084
Balance ..	-854	-298	+187	+411	+222
<i>Description</i>	<i>1933</i>	<i>1934</i>	<i>1935</i>	<i>1936</i>	<i>1937</i>
Imports ..	827	799	861	1,003	1,254
Exports ..	960	975	925	1,026	1,196
Balance ..	+133	+176	+64	+23	-58

C. CAPITAL IN POLAND

Whilst the foregoing outline demonstrates that both demographic and territorial conditions are quite favourable to the development of general prosperity in Poland, matters appear in quite a different light when viewed from the standpoint of capital, both circulating and fixed.

CAUSES OF LACK OF CAPITAL IN POST-WAR
POLAND

The indifference shown by the alien Empires to the needs of their Polish territories, the material sacrifices incurred during the various insurrectionary wars and the struggle for independence during the nineteenth century, still further aggravated by the losses and destruction caused by the Great War, all reacted adversely upon the prosperity of the country. The War

caused greater damage in Poland than in any other country.

It should be borne in mind that about 80 per cent of the area of Poland, i.e. all her territories with the exception of those held before the War by the Germans and a part of South-western (Austrian) Poland, was the scene of prolonged and destructive military operations; that all the territories formerly held by Russia underwent several military occupations (requisitions of foodstuffs, metals, machines, industrial plant, crops, and all kinds of produce); that an enormous number of buildings was destroyed. The war destruction suffered by Poland has been estimated at many thousand millions of zlotys. The events of the Russian Revolution deprived several millions of Poles of all their property within the limits of the present territory of the Soviet Union.

For two years after the conclusion of the Great War, fighting against the Bolshevik forces was still continued to the east of the Vistula.

The Bolshevik Revolution and the depreciation of the currencies of the three Empires which had dismembered Poland made the bank deposits of Poles in the banks and savings institutions in Russia, Germany, and Austria-Hungary melt away to vanishing point; in addition, internal capitalization was adversely affected by processes of inflation which Poland

could not avoid, and which lasted to the end of 1923. Thus, in 1925, in spite of the fact that five years had passed since the conclusion of peace, the savings capital of Polish citizens came to barely 11 per cent of the total cash capital possessed by them in pre-War times.

When Poland resumed her independent life after the War, she was faced with a thoroughly disorganized monetary system left behind by the alien Powers which had for so long misgoverned the country. There were five different foreign currencies in circulation—Austrian kronen, Russian roubles, German marks, and special War-time rouble and mark paper currencies issued by the German authorities of occupation. All these currencies were more or less depreciated and in fact had only a very uncertain current or potential value.

The result was that Poland took over her national economy under extremely adverse conditions: she inherited a great but a grievously neglected estate; as if the heir to territories recovered from dishonest and unscrupulous administrators she found that the estate was a fine one and could supply all her needs, but that it required a thoroughgoing reconstruction, improvement, and adaptation to the exigencies of modern life. There was an acute lack of liquid capital; it was necessary to secure means for reconstruction and for floating funds. It was

clear that if it were possible to obtain credits on moderate terms and within reasonable limits the advance towards prosperity could be accelerated. It was upon this road that Poland entered.

SYMPTOMS OF LACK OF CAPITAL

A few examples will be given in order to characterize the insufficiency of liquid capital in Poland.

High Discount and Interest Rates.—The insufficiency of floating funds in the country can be perceived by an examination of the discount rate in Poland.

BANK AND DISCOUNT RATE IN POLAND

(*Annual Averages for 1929-37*)

Year	Private Banks	Bank of Poland
1929	12·2	8·6
1930	11·5	7·2
1931	10·9	7·5
1932	10·7	7·2
1933	9·7	5·8
1934-37	9·0-8·5	5·0
Dec. 1937	8·5-8·0	4·5

The discount rates of the banks of issue in Great Britain, Holland, Germany, Belgium, Switzerland, and the United States fluctuated between 4 and 2 per cent during 1933-37.

As can be seen from the above, the difference between the bank rate in Poland and other countries is very large, whilst that between the discount rates of the private banks in Poland and in other lands is no less considerable.

The same symptom as on the credit market—disproportionately high interest rates—appears with even greater force on the investment market in Poland, where, for instance, the average yield of Government loans and of prime mortgage bonds fluctuated at a level which exceeded 10 per cent per annum during 1929–36. The yield dropped in 1937, but is still relatively high.

Small Circulation of Money.—In connexion with the high interest rate, Poland likewise has a small circulation of money compared with other countries; this is due, *inter alia*, to the fact that the high price of money causes a tendency to maintain a minimum level of cash reserves.

How extraordinarily small is the circulation of money per inhabitant in Poland can be seen from the following table.

AVERAGE CIRCULATION OF MONEY IN CERTAIN COUNTRIES
PER INHABITANT (1935)

	£.	s.	d.
France*	25	18	0
United Kingdom	8	8	0
Germany	7	15	0
Austria	6	4	0
Sweden*	6	10	0
Czechoslovakia	3	15	0
Roumania	2	2	0
Poland	1	12	0

* The data are only for bank-notes.

Source: *Statistical Year-Book of the League of Nations*, Geneva, 1937.

Low Level of Savings Deposits.—The low level of liquid capital in Poland is further characterized by the exceedingly small total of deposits in savings banks, as also by the very modest credit balances of current and other accounts in the banking institutions of Poland compared with the corresponding figures for other countries.

As the instinct for thrift is strongly developed in the Polish people it can be deduced that the low level of deposits in Polish financial and credit institutions is due to extraneous circumstances. It can be seen from the tables opposite that the increment in savings during the years 1930–34 in Poland has been much greater than in many other countries, and even exceeds the corresponding index for France and Belgium. This is largely due to the consistent policy of the Polish Government, which since 1926 has rigidly maintained the stability of the currency, and has enacted a number of measures calculated to assist the process of internal capitalization, such as propaganda encouraging savings (the Postal Savings Bank of Poland being especially active in this respect) and creating favourable conditions for a growth in savings.

Apart from the Government's purposeful policies in this respect, there was another factor which contributed to increase the volume of

savings deposits, namely, to some extent, an automatic process of transferring deposits from the private commercial banks to the savings institutions. This movement has been a universal one during the recent crisis, but in Poland it has been particularly strong. While on the subject, it can be stated that the Polish commercial banks, with rare exceptions, weathered the depression

GROWTH OF SAVINGS DEPOSITS IN SAVINGS BANKS
(1930-1936)

(1928 = 100)

Countries	1930	1931	1932	1933	1934	1935	1936
Poland ..	176	200	230	241	277	298	292
Belgium ..	182	217	231	236	245	248	269
France ..	143	188	212	218	225	229	218
Germany ..	149	140	141	166	178	187	199
United Kingdom	103	106	112	122	131	144	157
Austria ..	128	118	128	119	127	127	127
Czechoslovakia ..	114	128	129	122	122	126	126

SAVINGS DEPOSITS IN THE SAVINGS BANKS OF POLAND
(1928-1936)

STATUS AS ON DECEMBER 31ST

Year	Total Deposits, in Thousands Zlotys	Per Inhabitant, in Zlotys
1928	446,748	14·5
1929	569,810	18·2
1930	788,941	24·9
1931	890,734	27·7
1932	1,027,337	31·5
1933	1,077,131	32·6
1934	1,236,230	37·0
1935	1,331,000	39·3
1936	1,304,000	38·1

well and this was reflected in a growth of deposits in the private banks from 1934 as an indication of restored confidence on the part of the public. This growth was particularly marked throughout the whole of 1937.

In spite of this development, the aggregate sum of savings in Poland is still far below the corresponding figures for Western European countries. It is quite inadequate to meet the investment needs of Poland: even a considerable further increase in savings would still be insufficient reasonably to accelerate the satisfaction of the vital needs of the country and of the community if the economic development of the Republic were to remain solely dependent upon internal capitalization.

Low Consumption.—Apart from the features mentioned above, the lack of capital also makes itself felt in the low purchasing power of the population of Poland as also in the inadequate equipment of the country.

It will suffice to compare the consumption of a few commodities in Poland with that in some other countries in order to realize the low level of consumption current in the former and what possibilities Polish economy has before it in following a natural tendency to attain the levels of consumption observed in Western Europe.

CONSUMPTION OF CERTAIN COMMODITIES PER HEAD OF
POPULATION

(Annual Averages for 1932-1934)

<i>Commodities</i>	<i>Poland</i>	<i>United Kingdom</i>	<i>France</i>	<i>Germany</i>	<i>United States</i>
Sugar (kg.) ..	8·9	49·3	24·0	19·1	45·1
Coffee (kg.) ..	0·2	0·4	4·5	2·1	—
Tobacco (kg.) ..	0·5	1·5	1·3	1·7	2·5
Coal (kg.) ..	553	3,706	1,624	1,837	2,687
Cotton (kg.) ..	1·7	11·6	7·0	4·7	11·9

A similar disparity in consumption per head of population exists in respect of virtually every other commodity. This is not due to the un-developed needs of the inhabitants of the country, but to their low purchasing capacity.

INVESTMENT NEEDS

For like reasons Poland is backward in comparison with Western European countries as regards the normal equipment of her territory in the installations recognized to-day as essential for assuring proper conditions of work for the State Administration and for the life of the people, such as: transport, electrification, public utilities, housing accommodation, etc.

The tasks which confront Poland in this respect are elaborated in Chapter IV, dealing with the possibilities of profitable investments for foreign capital in Poland. They are fully analysed there with the necessary details of

the investment plans designed to satisfy the most urgent needs. The encouraging side of this state of affairs (for it is an ill wind that blows nobody any good) is that these lacks give the opportunity of carrying out useful work even during the depression, and will continue to do so for many years to come, whilst in many other countries, in the desire to combat unemployment, public works are executed which rather bear the character of luxuries and present doubtful prospects of profitableness.

The necessity for coping with very urgent needs in the field of investment works and the possibility of investing capital in profitable undertakings have been most important stimulants encouraging the influx of foreign capital into restored Poland.

CHAPTER II

SOURCES, FORMS, AND EXTENT OF INFLUX OF FOREIGN CAPITAL TO POLAND

THE needs of the State and the initiative of the business community caused foreign capital to enter the country. It originated from the most varied sources and assumed the most diverse forms.

Scheme of Classification

The various aspects of this movement will be examined below in the order given, according to groups of recipients (the Government, local government boards, private undertakings), with sub-divisions of creditor groups (Governments, private capital-market, financial institutions, and enterprises) and forms of credits (loan issues, cash, and goods).

A. GOVERNMENT

(1) Indebtedness of the Republic of Poland towards the governments of other countries in respect of loans granted in kind, in cash, or in other forms;

(2) Post-liquidation indebtedness towards holders of Austro-Hungarian Government bonds;

- (3) Government loans subscribed by public issue abroad;
- (4) Long-term loans, received by the National Economic Bank from foreign financial institutions;
- (5) Goods credits, taken up by the Government from foreign undertakings in connexion with the contractual delivery of supplies for the needs of the State (or of State enterprises);
- (6) Foreign capital which entered the country in connexion with the operation of monopolies and concessions for the exploitation of certain monopolistic enterprises.*

B. LOCAL GOVERNMENT BOARDS

- (1) Loans subscribed by public issue abroad;
- (2) Loans accepted from foreign financial institutions;
- (3) Loans received from foreign undertakings in conjunction with the contractual delivery of supplies from abroad for the needs of the local government boards and their enterprises, with fixed-term amortisation foreseen.

* This group likewise includes capital invested by the concessionnaires in order to assure the operation of their concessions. Although such sums do not, formally speaking, constitute Government indebtedness, there is an undoubted economic connexion between the incurring of debts by the State and the influx of capital in this form.

C. FOREIGN CAPITAL IN PRIVATE ECONOMY

- (1) Loans to private long-term mortgage credit associations;
- (2) Foreign long-term bond-issues of private enterprises;
- (3) Credits granted to banks;
- (4) Cash credits granted to industrial and commercial undertakings;
- (5) Goods credits granted to industrial and commercial undertakings;
- (6) Participation of foreign capital in the capital funds of Polish private undertakings;
- (7) Capital and credits of branches of foreign enterprises operating in Poland.

The above-mentioned categories will now be examined in detail, supplementary to the general information given in the Appendices at the end of this book:

- (a) Appendices A and B, showing the total of Polish financial obligations to other countries and of foreign capital engaged in Poland, as also an approximate estimate of the *division of participation* of the various creditor countries;
- (b) Appendix D, giving a list of guarantees granted by the State in respect of loans taken up by local government institutions and by private parties.

A. GOVERNMENT

(1) INDEBTEDNESS TOWARDS OTHER GOVERNMENTS

The indebtedness of the Republic of Poland towards the governments of other countries originated mainly from the obligation to redeem subsidies granted by the Allied Powers during the World War to Polish organizations for political propaganda and for the equipment of Polish military detachments and formations, as also for the repatriation of such troops to Poland, and to cover the cost of delimiting and fixing the frontiers of Poland. In addition, shortly after the cessation of hostilities Poland, in company with a number of other countries which had suffered severely from the War, received credits (mostly goods credits) from the richer countries which understood immediately after the conclusion of peace (perhaps better than to-day) that such assistance was also to their own interest. There was one more loan of this type, effected in 1937 (see page 59).

The obligations of the Polish Government in respect of the above comprise four main groups.

(a) The first of these, covering the major part of these credits, arose in connexion with deliveries of goods and equipment, as also with services rendered in connexion with the conclusion of the Great War and the defence of Poland's frontiers. They were granted during

the War and during the period 1919–1924 on the basis of direct negotiations by the Polish Government with the Governments of France, Great Britain, the United States, Holland, and Italy, and were incurred for the following purposes:

<i>Creditor</i>	<i>Purpose of Credit</i>
<i>United States of America—</i>	
American Relief Administration (A.R.A.)	Foodstuffs
U.S. Grain Corporation ..	Flour
U.S. European Liquidation Commission	Foodstuffs; military food supplies
U.S. War Department ..	Foodstuffs, uniforms, sanitary material, and railway equipment
U.S. Navy Department ..	Foodstuffs, clothing, technical equipment
U.S. Shipping Board ..	Ocean transport of railway equipment, uniforms, and foodstuffs
<i>Italian Government</i>	.. War supplies and repatriation of prisoners of war
<i>French Government</i>	.. Disbursements on Polish Army in France, Polish Siberian Division; subsidies to the Polish National Committee in Paris; army liquidation stocks, transport and freight; repatriation of prisoners of war from Siberia; credit of 400 million French francs for purchase of supplies in 1924 and in subsequent years
<i>Holland—</i>	
State Clothing Bureau	.. Clothing (debt paid off in 1935)
<i>British Government</i>	.. Maintenance of Polish military organizations in Russia

The indebtedness to the United States was consolidated, on the strength of an agreement concluded on November 14, 1924, at 206 million dollars. The interest rate and the amortisation plan fixed were much more favourable to the United States than those granted by that country to other governments in respect of War debts. In the case of Poland, the rate came to 3 per cent, and the sinking fund payments were extended to the year 1984. Following the granting of a moratorium by President Hoover to Germany and the subsequent cessation of payment of interest and sinking fund instalments to the United States by all the debtor countries (with the exception of Finland), the Polish Government likewise suspended the payment of these sums as from 1931.

The indebtedness to France was consolidated by the agreement of 1930, whereby the whole sum is to be successively paid off by 1992.

(b) The second general group of indebtedness comprises the so-called relief credits.

The system of allocating international credits for relief and reconstruction to the newly established or greatly exhausted countries after the War was set up at a conference of countries granting such credits which met in Paris in April 1920. With a view to establishing a uniform system, these countries founded the International Committee for Relief Credits with

headquarters in Paris. Countries wishing to extend credits filed details of the goods credits offered by them at the offices of the Committee, which then allocated them to the various countries asking for help: Czechoslovakia, Roumania, Yugoslavia, Estonia, Hungary, and Austria, as also Poland, which took up such credits for the following purposes:

<i>Creditors</i>	<i>Purpose of Credit</i>
Dutch Government ..	Sowing oats and repatriation of prisoners of war
British Government ..	Railway equipment, textiles, leather, foodstuffs, sowing oats, wool, copper, medical supplies, and sanitary material
Norwegian Government ..	Foodstuffs
Danish Government ..	Repatriation of prisoners of war, veterinary commission, sowing oats
Swedish Government ..	Sowing oats, repatriation of prisoners of war, machine tools for railway workshops, etc.
Swiss Government ..	Repatriation costs

The Committee drew up a uniform type of debtor scrip for all the countries concerned, the interest rate of 5 per cent being applied to all the debtors, as was also at first the redemption date of the credits (January 1, 1925).

The relief indebtedness of Poland was consolidated by the London agreement of December 10, 1924, with the International Committee,

supplemented by an understanding reached in 1929 with Sweden. The capital sum of the debt was fixed at about 29 million dollars with interest due as from January 1, 1925.

In the consolidation agreement the interest rate was fixed at 5 per cent, with redemption during the course of fourteen years by means of progressive sinking-fund operations; the bonds in question contain clauses assuring prior claims to the property and revenue of the debtor-countries; redemption payments were to be made parallelly and in equal measure to all the creditors (this consolidation agreement was ratified by Poland on February 18, 1926, *Journ. of Laws of the Rep. of Poland*, No. 25, item 145).

In connexion with the moratorium announced by President Hoover in July 1931, the instalments payable have not been effected under an arrangement whereby the Polish Government has postponed payments from half-year to half-year as the redemption dates mature. Payment was resumed in 1935, but only to the neutral countries as the other ones (Great Britain and France) signed a new agreement at London early in 1935 whereby the redemption of relief indebtedness was placed in abeyance until the whole question of international War debts is settled. As regards the neutral countries, it was stipulated in the agreement that the service of relief debts will cover only the payment of capital sums, whilst

interest payments were annulled. The redemption of the capital indebtedness has also been spread over a longer period of time.

A further agreement was concluded on March 14, 1935, at London, (with the participation of the Polish Government on the one hand, and of the Danish, Dutch, Norwegian, Swedish, and Swiss Governments on the other); its text was published in Poland on June 9, 1937. The terms of the agreement are: Poland will pay (as from July 1, 1934) capital amortisation sums, but no interest (which had amounted to 5 per cent). The five instalments of amortisation payments which are in default (those payable on January 1, 1932, till January 1, 1934) will be paid off in four half-yearly equal instalments payable on July 1, 1940, January 1, 1941, July 1, 1941, and January 1, 1942. In exchange for five bonds which had been payable between January 1, 1932, and January 1, 1934 inclusive, Poland is to furnish four new ones to the creditor countries, who will retain these bonds until their redemption; pending maturity, these bonds will not bear interest. The instalment payable on July 1, 1934, was effected one month after the agreement entered into force and the one due on January 1, 1935, two months later.

To Norway and Sweden the Polish Government has bound itself to pay not only amortisation instalments but also interest on that part

of the relief debts which had been incurred by private parties.

(c) The third group of obligations comprises Poland's debt in connexion with the delimiting of her frontiers after the War (namely, debts due to France, Great Britain, and Italy in respect of costs incurred during the holding of plebiscites); the debt was consolidated on the basis of understandings arrived at in 1932 (interest rate 4 per cent, with instalments payable up to 1995). This group also includes indebtedness representing part of the National Debt of the former Austro-Hungarian Empire. Negotiations between Poland and the Reparation Commission resulted in Poland accepting, *inter alia*, obligations in respect of a part of the Austro-Hungarian krone and florin loans issued in terms of paper currency. The Polish Government acquired packets of these bonds from the Austrian and Czechoslovak Governments upon credit conditions, using the scrip for the complete liquidation of that part of the obligations accepted in respect of loan issues in paper currency as regards the Reparations Commission and the Caisse Commune des Porteurs des Dettes publiques autrichienne et hongroise émises avant la Guerre. The amount due to the Austrian Government was paid off in 1935, and that due to the Czechoslovak Government is to be redeemed in 1940 by a single payment.

(d) The most recent foreign loan contracted by the Polish Government was granted in January 1937 by the French Government to the amount of 2,600 million French francs. The loan sum consists of three sections. The first, a direct cash loan of 810 million French francs, the second—a commercial credit for purchases in France for the sum of 1,000 million French francs and a cash credit of 250 million French francs for carrying out in Poland certain installations connected with the purchases made in France. The third consists of 540 million French francs, and represents the second issue of the 6 per cent bonds of the Franco-Polish Silesia-Baltic Railway Company.

The repayment of the commercial credit will be made during fifteen years, whilst the repayment of the cash loan and of the bonds has been spread over thirty-four years.

The average actual interest charge of the total loan and credits amounts to 5 per cent. The loan has been granted without any special security. Most of the proceeds obtained by the Polish Government will be expended on national defence. The proceeds of the bond issue will be devoted to the extension of the Silesia-Baltic Railway line.

The table on page 60 gives details of Poland's indebtedness to the various foreign govern-

GOVERNMENT INDEBTEDNESS OF POLAND

	<i>Country</i>	<i>Year of Consolidation</i>	<i>Initial Sum, in Currency of each Country</i>	<i>Status on Oct. 1, 1937, in Currency of each Country</i>
I. LOANS FOR SERVICES, SUPPLIES, AND ADVANCES DURING THE WAR AND THE FIRST FEW POST-WAR YEARS				
France	..	1930	1,897,064,300 French francs	1,893,449,802 French francs
France	..	1924-32	400,000,000 French francs	229,789,234 French francs
United Kingdom	..	1924	£174,000	£71,037
U.S.A.	..	1924-30	219,160,000 dollars	206,057,000 dollars
II. RELIEF INDEBTEDNESS				
Denmark	..	1924	434,500 kroner	204,250 kroner
France	..	1924	280,000 French francs	235,200 French francs
Holland	..	1924	520,500 guilders	247,000 guilders
Norway	..	1924	20,327,600 kroner (£1,600)	8,952,355 kroner (£712)
Switzerland	..	1924	93,800 francs	42,750 francs
Sweden	..	1924-29	6,339,400 kronor	3,474,750 kronor
United Kingdom	..	1924	£4,778,700	£3,881,587
III. (a) INDEBTEDNESS IN RESPECT OF SHARE OF PLEBISCITE COSTS IN EAST PRUSSIA, CIESZYN SILESIA, AND UPPER SILESIA				
France	..	1930	178,617,900 French francs	176,857,324 French francs
United Kingdom	..	1930	£604,600	£598,658
Italy	..	1930	38,446,100 lire	38,068,439 lire
(b) INDEBTEDNESS IN RESPECT OF MUTUAL ACCOUNTS ARISING OUT OF THE TREATY OF ST. GERMAIN				
Czechoslovakia	..	—	17,100,000 Swiss francs	17,100,000 Swiss francs

Source: *Monitor Polski*, No. 274, November 27, 1937.

ments and the status of such obligations on October 1, 1937.

(2) POST-LIQUIDATION INDEBTEDNESS TOWARDS
HOLDERS OF AUSTRO-HUNGARIAN GOVERN-
MENT BONDS

In view of the fact that certain territories, formerly part of the Austro-Hungarian Empire, were restored to Poland after the War, the latter was obliged, in common with the other succession States, to accept financial obligations arising out of this fact as regards the holders of Austro-Hungarian bonds. The obligations which have thus been accepted are known as post-liquidation indebtedness.

The juridical basis for the post-liquidation indebtedness is furnished by the Treaty of St. Germain and the Treaty of Trianon, whilst its extent, the technique of redemption, and the payment of interest sums were fixed by the Innsbruck Protocol (1923) and by the Prague Agreement (of November 14, 1925, *Journ. of Laws of the Rep. of Poland*, No. 25, item 14). It was upon the basis of these understandings that the Caisse Commune de Porteurs des Dettes publiques autrichienne et hongroise émises avant la Guerre was set up; this institution arranges for the payment of interest coupons, drawing of bonds for redemption,

and amortisation of bonds from the sums transferred to it by the debtor countries.

Poland's indebtedness falls under two headings: (1) a part, comprising bonds of the Charles Louis, Albrecht, Emperor Ferdinand Northern, and the Hungarian-Galician Railways, guaranteed by the property of these railways; these bonds were converted into bonds of the Polish 5 per cent Railway Conversion Loan of 1926; (2) a fiduciary part, equivalent to 13·733 per cent of the Austrian National Debt and 0·085 per cent of the Hungarian National Debt, consists of rentes and bonds in domestic gold or paper currency or in foreign currency. Mention has already been made of securities issued in paper currency. Pre-War Austrian and Hungarian bonds held by Polish citizens were exchanged for bonds of the 5 per cent Polish Conversion Loan of 1924.

The present indebtedness (the unsecured part in respect of gold currency loans) consists of about 66·6 million Austrian florins of the 4 per cent Perpetual Austrian Gold Rentes and of 20·9 million gold kronen of the 4½ per cent Austrian Treasury Bonds of 1914, together representing the equivalent of £12,500,000 as on July 1, 1934. The redemption and service of these loans were fixed by the Paris Agreement of October 31, 1930, as follows: the sums due as interest on both types of bonds, computed

in gold francs, were to be payable to the Caisse Commune in a gradually increasing proportion of their parity: in the case of the Perpetual Gold Rentes, 34 per cent of the gold parity of the coupons was paid during the period 1934-1935, while 39 per cent of the gold parity of the coupons was paid in the case of the Treasury bonds. In course of time, the percentage amount payable for the coupons increases to 70 per cent for the Rentes and to 100 per cent for the Treasury bonds. Various periods are foreseen for the payment of annuities and amortisation sums: in the first case, a part or all of the annuity may be payable, whilst amortisation is to equal 2 per cent of the capital sum; a final plan of amortisation taking the payments effected to date into consideration, is to be elaborated. The Treasury bonds have been divided into two categories; the redemption of the first category is possible at any time, but if this is not done a plan of amortisation is to be drawn up whereby sinking fund operations are to commence in 1937 and end in 1945, that is to say, the redemption of the capital sum will be effected in nine instalments. The redemption of the second category can also be effected at any time, but an amortisation plan is to be drawn up in 1946 for the redemption of the entire capital sum by means of ten annual instalments. The Paris agreement of October

31, 1930, has to date not been ratified by one of the governments interested—the Hungarian Government—and it is therefore always possible that its stipulations may be amended as a result of fresh negotiations between the debtor countries and the Caisse Commune.

(3) GOVERNMENT LOAN ISSUES ABROAD

Issues of Loans and Conditions applied

Credits obtained in the form of loans granted by the governments of foreign countries were insufficient for the needs of the Republic of Poland, which had simultaneously to defend its frontiers and to create its internal organization (the machinery of State and Government, the repairing of war devastation, the organization of the schools, improvement of the means of communication, construction of a maritime port, etc.).

Ordinary budgetary revenues should normally not be used to cover large-scale expenditure of the investment type, and in particular this could not be done in Poland by levying too high taxes upon the present generation of the population, impoverished as it was by many years of war. The possibilities of securing the necessary financial means for national invest-

ment works with the aid of internal loans during the first few post-War years were very small owing to the inadequate domestic capitalization. In view of this, the Polish Government accepted the proposals of foreign private capital, and floated several loans by public subscription abroad. The first of these was the 6 per cent Dollar Loan of 1920 subscribed by the masses of Polish emigrants (mostly in the United States), who at that time disposed of considerable savings and very willingly lent them to the new Poland.

A 7 per cent Italian loan was secured in 1924 for the sum of 400 million lire, guaranteed by the Italian Government and issued for public subscription by the Banca Commerciale Italiana. A year later, an 8 per cent loan was floated in the United States for the nominal sum of \$35 millions, issued for public subscription through Messrs. Dillon, Read & Co. But the largest credit transaction effected by Poland upon the private capital market was the 7 per cent Stabilisation Loan, issued in 1927 for the sum of \$62 millions and £2 millions.*

The principal details on these issues are given in Appendix C, whilst supplementary data on some loans are given on the following pages.

* The 6½ per cent Match Monopoly Loan was effected in 1930 (see pp. 102 et seq.).

The basis for the flotation of the 7 per cent Italian Tobacco Loan on the Italian market was the agreement of March 10, 1924, concluded between the Polish and the Italian Governments in respect of the fundamental financial conditions of the loan; the agreement envisages the granting of a guarantee by the Italian Government whereby bondholders are assured regular payment of interest and amortisation sums by the Polish Government. A lire Reserve Fund, deposited at the Banca Commerciale Italiana, was established in order to assure the proper service of the loan; the necessary funds for this reserve were to be transmitted by the Polish State Tobacco Monopoly to the extent of 4 per cent of the loan amount per annum during the first five years and 3 per cent per annum during the second five. The fund is invested in Italian Government bonds. Independently of the foregoing, the State Tobacco Monopoly bound itself, on the strength of an agreement with the Italian concessionnaires, to purchase 60 per cent of its imported raw tobacco requirements through this group up to the year 1944. The Reserve Fund amounted to 176 million lire in 1933, whilst the sum due from the Polish Government was reduced to 283 million lire by normal sinking fund operations. In connexion with this, a provisional agreement was arranged,

whereby payment of the last two instalments for the Fund was postponed until a new arrangement will be made; in addition, the agreement permits the Polish Government to utilize the Reserve Fund for the service of interest and sinking fund payments so that the Polish balance of payments was therefore unaffected.

The Republic of Poland 7 per cent Stabilisation Loan of 1927 was originally floated in the United States for \$47 millions, Great Britain £2 millions, France \$2 millions, Holland \$4 millions, Switzerland \$6 millions, Sweden \$2 millions, and Poland \$1 million, making in all \$62 millions and £2 millions. The coupons and bonds drawn for amortisation were payable on the demand of the bondholder either in New York City in gold United States dollars, in London in sterling at the rate of £1 = \$4.86, in Switzerland at the rate of \$1 = 5.18 Swiss francs, in Holland at the rate of \$1 = 2.48 Dutch florins, in Sweden at the rate of \$1 = 3.73 kronor, and in France or in Poland at the current bourse dollar exchange rate.

The proceeds of the Loan were paid into the Bank of Poland in the form of foreign exchanges. They were utilized as follows:

(a) 75 million zlotys were used to increase the stock capital of the Bank of Poland. The shares were purchased by the Treasury but were

later (in 1936) bought back by the Bank and the stock capital of the Polish central bank was thereupon reduced by a like amount;

(b) 140 million zlotys were expended for the withdrawal of half the issue of Treasury fractional notes by the Bank of Poland, whilst 90 million zlotys were utilized for the conversion of the remainder into silver coin;

(c) 25 million zlotys were utilized for the amortisation of the Floating Debt in connexion with the short-term, interest-bearing Treasury bills on the market; in addition, a Treasury Floating Reserve Fund of 75 million zlotys was established;

(d) 140 million zlotys were set aside for the credit needs of the State enterprises and for agricultural credits; a special fund was set up for this purpose (Credit Fund "F") and administered by the Bank of Poland on behalf of the Polish Government (on the strength of a special statute drawn up on the basis of an understanding between the Polish authorities, the Bank of Poland, and the representatives of the creditors).*

* This Fund was virtually completely expended during the course of 1928 in financing the economic life of the country, partly by the purchase of securities and partly by the granting of cash credits. The largest credits were received by the State Fixed-Nitrogen Compounds Works and by the Polish State Posts, Telegraphs, and Telephones. The Fund also purchased mortgage and other bonds issued by the State-owned banks and by mortgage credit associations for an aggregate sum of over 57 million zlotys.

Simultaneously with the flotation of the Stabilisation Loan and thanks to the initiative of the Federal Reserve Bank and the Banque de France, the Bank of Poland received a reserve credit of up to \$20 millions in fourteen banks of issue, who desired in this manner to demonstrate their solidarity with the work of currency reform in Poland. The parity value of the zloty was fixed by law, after the receipts from the Loan were received at the end of 1927, as equivalent to the rate of 8·90 zlotys per United States (pre-devaluation) dollar for bankers' cheques on New York.

CHANGES IN CONDITIONS OF SERVICE OF LOANS SINCE 1936

The world-wide economic crisis broke out less than two years after the last-named bond issue was floated. For many years during these hard times, by dint of extraordinary efforts, Poland succeeded strictly in meeting all her obligations in respect of Government bonds although these had been issued under vastly different economic conditions, whilst the majority of the debtor countries as early as 1931 and 1932 either fully or partially stopped the service of sinking-fund and interest payments, or suspended the transfer of sums payable abroad.

It was as late as April 1936 before the Polish Government, for reasons which will be discussed in detail on pages 171-181, was obliged to introduce foreign exchange restrictions.* A general embargo on the transfer of the service of public and private foreign indebtedness was promulgated in June 1936. The Polish Government notified the respective fiscal and paying agents, the Foreign Bondholders' Protective Council Inc., in New York, that Poland was obliged to effect a temporary suspension of transfer as regards the service of current Polish indebtedness in other countries; it was added that future payments in connexion with this service would be deposited into special blocked accounts in zlotys, equivalent to the gold value of the currencies in which the loans had been issued. Already in February 1937, the Polish Government proposed to effect a provisional cash settlement of the service of all dollar loans issued in the United States as also of the European tranches of the 7 per cent Stabilisation Loan.

Bondholders of Polish Government and other

* The legal bases for the introduction and operation of foreign control are, in their chronological order, as follows: (1) A Decree of the President of the Republic dated April 26, 1936, on the monetary turnover with other countries and on the exchange of foreign and internal means of payment (*Journal of Laws*, No. 32). (2) A Decree of the Minister of Finance on the monetary turnover with foreign countries and

bonds issued abroad were offered payment of three successive half-yearly coupons, payable in cash during the course of eighteen months to the extent of 35 per cent, but with the proviso that the Polish Government reserves the right to withdraw the offer as regards the third coupon on notice ninety days prior to date of maturity.

An alternative proposal was made by the Polish Government, viz., that the coupons would be exchanged for new 3 per cent Dollar Funding Bonds at par, equivalent to the full face value of the former; this special issue of bonds is redeemable after the lapse of twenty years. In the case of bondholders who refuse these terms the zloty equivalent of the sums due in respect of the face value of their coupons will remain in blocked accounts at the Bank of Poland without the privilege of transfer.

The amortisation of the loans is to be effected, according to the above plan, by purchases of the requisite amount of bonds which can be secured on the open market in Poland on the exchange of foreign and internal means of payment, dated April 26, 1936 (*Journal of Laws*, No. 32). (3) A Decree of the Minister of Finance, dated July 24, 1936, on the same subject (*Journal of Laws*, No. 57). (4) A Decree of the President of the Republic dated August 29, 1936, on an amendment of the Decree of the President of the Republic dated April 26, 1936, on the same subject (*Journal of Laws*, No. 67).

in order to avoid the necessity of effecting additional transfers of foreign exchange.

The following passage is from the declaration issued by the Foreign Bondholders' Protective Council in connexion with the above: "In determining the reasonableness of this Polish offer, bondholders will have in mind that the Government of Poland is showing a will to make some service: that the bond obligation is to be unaffected by an acceptance of the Polish offer except as to the three coupons for which service is provided: that while the cash offer is to be for a partial interest service only, there is to be an offer of full interest service in funding bonds, . . . the transfer of the funds for serving such bonds (principal and interest) to be free from any and all Polish exchange restrictions: that the Polish Government paid full service (interest and amortisation) on its obligations during the most trying years of the depression: and that the Polish Government pleads as justification for the offer, it is now to make, the compulsion of a national situation resulting from causes it can neither control nor remedy."*

On April 7, 1937, a law was passed in respect of the conversion and exchange of

* For full details of the plan and text of the proposal and bondholders' declaration, see *Quarterly Bulletin*, Bank of Poland, No. 27, Warsaw, 1937.

Government and local-government securities (issued in foreign currencies) which envisaged the conversion of this scrip for the bonds of a Government internal loan. It promulgates the basic stipulations regarding the conditions of this loan and authorizes the Minister of Finance to effect the issue. It also empowers the Minister of Finance to issue long-term 3 per cent Treasury bonds which will be exchanged for the coupons of Government, local government, and other bonds guaranteed by the State and which were not included in the conversion plan, or, were so included, but will not be presented for conversion. The maximum term for the redemption of these bonds has been fixed at twenty years.

An order, dated May 15, 1937, and issued by the Minister of Finance, arranges for the execution of the law of April 7th, and furnishes detailed conditions for conversion into bonds of the $4\frac{1}{2}$ per cent Internal Government Loan of 1937.

The conversion of bonds of Government and local-government loans for those of the $4\frac{1}{2}$ per cent Internal Government Loan affects the following issues:

(a) Government

- (1) Republic of Poland Twenty-Year 6 per cent United States Gold Dollar Bond Loan of 1920;

- (2) Republic of Poland 8 per cent External Sinking Fund Gold Dollar Bond Loan of 1925 (Messrs. Dillon, Read & Co.);
- (3) Republic of Poland 7 per cent Stabilisation Loan of 1927 (Dollar tranche);

(b) Local-government

- (1) 7 per cent Province of Silesia External Gold Bond (Dollar) Loan of 1928;
- (2) 7 per cent City of Warsaw Gold Bond (Dollar) Loan of 1928.

As its name implies, its object is to offer conversion to domestic bondholders. The extent of the issue and the amortisation plan are to be fixed upon the expiration of the period set since the amount presented for conversion cannot be known in advance. Bonds will be accepted for conversion during the period of one year—from June 1, 1937 to May 31, 1938.

The basis accepted for computing the zloty value of the capital sum of the converted bonds is their parity. The redemption premium is, however, added to the face value and corresponds to the premium envisaged in the issue conditions of the loans in respect of redemption of capital by drawings or by sinking-fund operations. In the case of the 8 per cent Dollar (Dillon) Loan, this premium amounts to 5 per cent of the par value, 3 per cent in the case of the 7 per cent Stabilisation Loan, 2 per cent

in that of the 7 per cent Province of Silesia Loan and City of Warsaw Loan. The capital of the loans is to be computed in zlotys according to the following schedule:

- (1) 6 per cent Dollar Loan (1920), \$1 = 6·00;
- (2) 8 per cent Dollar Loan (Dillon), \$1 = 5·30;
- (3) 7 per cent Stabilisation Loan, \$1 = 7·20;
- (4) 7 per cent Province of Silesia and 7 per cent City of Warsaw Loans, \$1 = 5·30.

Converted into zlotys in accordance with the above principles, the capital of the foreign issues will be paid out in bonds of the 4½ per cent Internal Loan. Sums not divisible by 100 will be covered by "fractional" certificates, whilst sums of less than five zlotys will be paid out in cash.

The loan is to be redeemed by the year 1958 by drawings or purchases on the open market. Amortisation operations will be effected twice yearly as from August 1, 1938. Interest at the rate of 4½ per cent will be paid in three instalments at the end of each four-month period. The capital and interest are secured on the entirety of the movable and real property of the State. The coupons are free of all Government and local-government taxation. In accordance with the law of April 7, 1937, it is foreseen that if bonds not presented for conversion (primarily, therefore, those held by bondholders in other countries) will at some time in the future be

offered conversion on better terms, holders of the $4\frac{1}{2}$ per cent internal bonds will be empowered to participate in such conversion and to receive the same interest rate, amortisation terms, and redemption rates. Dollar bonds for the total sum of \$45,987,200 were presented for conversion into $4\frac{1}{2}$ per cent Internal Government Loan (1937) bonds up to May 1, 1938. It can be stated that the total amount presented for conversion into bonds of the internal loan was very satisfactory in respect of dollar bonds held by Polish bondholders at the time when the appropriate legislation was enacted.

In October 1937 the Ministry of Finance announced that the service of bonds of the above-mentioned issues held outside Poland would be established upon a new level as from October 1, 1937, to April 30, 1938. Instead of payment in cash of 35 per cent of the face value of the interest coupons, bondholders would receive uniformly for all the loans embraced by the above understanding, interest at the rate of $4\frac{1}{4}$ per cent per annum upon surrender of the coupons payable and the waiving of claims in respect of the difference in interest.

Bondholders of these loans who have not presented their bonds for conversion into the $4\frac{1}{2}$ per cent Internal Government Loan (1937) can apply for payment of the coupons in question at the rate of $4\frac{1}{4}$ per cent per annum.

The offer presented by the Polish Government constitutes a set of temporary measures. The Government has stressed their provisional character and has pointed out that the definitive conditions which it will be able to offer will be largely dependent on the further shaping of the world economic and financial situation and on the foreign-exchange situation of Poland. In any case, it is considered that the plan affords proof of good faith in the continued payment of Poland's indebtedness abroad. For, Poland demonstrated during the trough of the depression that she desires to maintain her credit standing in other countries, that she is a reliable debtor who has an established reputation to keep up, and who will undoubtedly, as follows from the official enunciations of the Polish Government, continue to strive to maintain the confidence of her creditors. (For the latest developments in this connexion, see Appendix F.)

(4) GENERAL REMARKS ON POLISH GOVERNMENT INDEBTEDNESS*

The par value of all the bond-issues floated by Poland on foreign money markets as on October 1, 1937, came to 533,941,580 zlotys (£20,613,137); even if the total figure of all

* This sub-section was placed in its present sequence and not at the end of the section as it deals mostly with bonded indebtedness.

Poland's indebtedness to the Governments of other countries (1,671,333,231 zlotys) be added to this sum, the aggregate amount will only come to 2,205,274,811 zlotys (£84,814,416).

The following table affords data on the total Government indebtedness of Poland during the years 1928–36 (Status on January 1st).

POLISH GOVERNMENT INDEBTEDNESS (1928–1936)

(*Status on January 1st: in million zlotys*)

<i>Debt</i>	<i>1928</i>	<i>1929</i>	<i>1930</i>	<i>1931</i>	<i>1932</i>
Total ..	4,161	4,170	4,073	4,413	5,029
Internal ..	299	360	382	421	459
External ..	3,862	3,810	3,691	3,992	4,570
		<i>1933</i>	<i>1934</i>	<i>1935</i>	<i>1936</i>
					(Oct. 1)
Total ..	5,054	4,303	4,691	4,757	4,660
Internal ..	540	759	1,346	1,775	1,739
External ..	4,514	3,544	3,345	3,282	2,921

The data on external indebtedness in the preceding table covers Poland's part of the post-Austro-Hungarian debt, indebtedness towards other governments as also all the five foreign loan-issues dealt with in Appendix C.

It should be taken into consideration that the greater part of the Government indebtedness of Poland consists of obligations towards other countries in respect of loans contracted in connexion with the War, i.e., at a time when these credits were being granted not only in the interests of Poland herself, but also in the

well-conceived interests of international solidarity. Bearing this in mind, it would seem that the duty of redeeming this indebtedness by Poland evokes at least the same moral doubts as the redemption of War debts due to the United States by France, Great Britain, Italy, and other countries. Without entering into any detailed justification of this point of view, it is necessary only to stress the fact that the consolidation of the Polish Republic and its victory over the Bolsheviks during the Polish-Bolshevik War in 1920 effectively checked the advance of destructive social revolutionary waves threatening the economic structure of Western Europe.

The following data show that the national indebtedness per head of population in Poland is considerably lower than the corresponding figures for other countries:

GOVERNMENT INDEBTEDNESS PER HEAD OF POPULATION IN CERTAIN COUNTRIES (1935)

(In pounds sterling per head computed at average rates of exchange in 1935)

<i>Country</i>	<i>£</i>	<i>s.</i>	<i>d.</i>
Poland (144 zlotys) 5 8 0			
Germany (Rm. 214) 15 8 0			
Czechoslovakia (Kč. 2234) 22 18 0			
France (Fr. 11,880) 163 16 0			
United Kingdom 169 0 6			

Source: *Statistical Year-Book of the League of Nations*, Geneva, 1936.

A comparison of the indebtedness of the Polish Government with that of some other countries, excluding political indebtedness, yields the following picture:

GOVERNMENT INDEBTEDNESS OF CERTAIN COUNTRIES*

(*In Million Units of the Currency of the given Countries*)

<i>Country and Date</i>	<i>Internal Debt</i>	<i>External Debt, excluding Political Indebtedness</i>	<i>Total</i>
United Kingdom £ (March 31, 1937)	.. 6,765	—	6,765
France frs. (Jan. 1, 1936)	.. 323,125	2,660	325,785
Poland zl. (April 1, 1935)	.. 1,480	1,163	2,643

Note: The data concerning Poland in this table are not fully comparable with those based on Polish sources owing to differences in classification.

The actual foreign indebtedness of the Polish Government is, however, much smaller as a fairly large portion of the Government bonds has been acquired by capitalists in Poland. This process of "nationalizing" Government loan issues floated abroad is a common feature known in all the debtor countries as their internal capitalization advances.

The estimated figure of repatriated bonds was, according to the latest estimates, nearly 300 million zlotys, i.e. approximately one-third of

* Data from the *Statistisches Jahrbuch f. das Deutsche Reich*, 1936.

the total of all Polish Government foreign bond issues. It is worthy of special notice, that, for instance, of the largest Polish Government foreign bond issue (the 7 per cent Stabilisation Loan of 1927), the dollar tranche of which came to \$62 millions, the outstanding had been reduced to \$37,820,000 before the suspension of transfer in 1936. Further, of this outstanding sum, about \$21 millions were repatriated to Poland by purchases on open markets abroad so that the transfer restrictions affected foreign bondholders only to the extent of only \$16 millions, i.e. one-quarter of the initial issue sum, whilst about three-quarters of the original issue sum was redeemed, in spite of the difficult conditions of the depression, along quite normal lines.

The following data will show in what small measure Poland has taken advantage of foreign money markets in the past.

(In million zlotys computed at parity)

	<i>Great Britain</i>	<i>U.S.A.</i>	<i>France</i>
Total par value of foreign bonds sold by public subscription in 1919-34	61,931·8	93,483·6	4,537·0
Par value of Polish bond issues in 1919-34 ..	86·8	1,095·1	172·3
Polish bond issues against total par value of bond flotations	0·14 %	1·17 %	3·80 %
F			

This moderation in contracting foreign credits on the money markets of the world was the outcome of the cautious policy of the Polish Government. The Government exercised every care to maintain Poland's credit at a proper level by avoiding an over-supply of Polish securities upon these markets. It always kept in mind the necessity of maintaining a proper relation between the foreign obligations of the country and its paying ability. In addition, the Government wished to avoid an excessive increase of liquidity upon the home market which could lead to a credit inflation, and so to an excessive rise in prices, to a profound disturbance of the equilibrium of the balance of trade, and so on.

It is true that as a result it proved necessary to postpone many useful investment works which could not be financed out of budgetary revenue or the available goods credits; this caution has not been without its reward, for the same works carried out now cost nearly 50 per cent less than they would have cost some years ago owing to the great decrease in prices consequent upon the economic depression during the period 1929-35. This careful policy of the Government demanded a somewhat painful adaptation to the limited means available on the home market, but in the long run it has undoubtedly proved to have been a wise and rational attitude. It is

thanks to such principles that Poland has been able to pass through many years of a general and severe world depression without her currency and her credit system being weakened, while many other countries were obliged to have recourse to currency depreciation or foreign exchange control systems during the early phase of the depression. It is true, Poland could not in the end avoid introducing transfer restrictions, but she was the last to do this in a long list of countries.

* * *

Quotations of Government bond issues of several countries, which after the War benefited to a much greater extent than Poland in contracting international credit, are given by way of comparison in the table on page 84 which shows that, compared with the loans of many other countries, the quotations of Polish bonds have shaped relatively well.

(5) NATIONAL ECONOMIC BANK LOAN ISSUES

The National Economic Bank of Poland contracted foreign obligations which should be included in the indebtedness of the State to private capital abroad. This bank is a legal corporate body, but its total capital of 150,000,000 zlotys was furnished by the Government and remains the property of the Polish

QUOTATIONS OF FOREIGN GOVERNMENT LOAN ISSUES IN LONDON IN PERCENTAGES OF PARITY

<i>Bond Issue</i>	<i>Issue Rate</i>	<i>End of Year</i>		
		1935	1936	1937
7 per cent Polish Stabilisation (1927)	..	92	87	77
5½ per cent Young Bonds (1930)	..	90	35	38½
6½ per cent Brazilian (1927)	..	92½	42	26½
6 per cent Chilean (1926)	..	93½	22.	18½

QUOTATIONS OF FOREIGN GOVERNMENT LOAN ISSUES IN NEW YORK IN PERCENTAGES OF PARITY

6 per cent Polish Dollar (1920)	..	100	48½	57½	64½
8 per cent Polish (1925, Dillon, Read & Co.)		95	93½	55½	62
7 per cent Polish Stabilisation (1927)	..	92	107½	76	79½
8 per cent Yugoslavia (1922)	..	95½	24½	23½	32
7 per cent German (1924)	..	92	28½	38½	31
7½ per cent Hungarian (1924)	..	87½	48½	36½	58
6½ per cent Brazilian (1927)	..	92½	40½	22	18½
6 per cent Chilean (1926)	..	93½	20	14	16½

Treasury. The Bank was established in 1924 as the result of a fusion effected by three Polish banking institutions: the Polski Bank Krajowy (National Bank of Poland), the Zaklad Kredytowy Miast Małopolskich (South Poland Urban Credit Bank), and the Bank Odbudowy w Małopolsce (Reconstruction Bank of South Poland).

The total balance-sheet sum of the National Economic Bank on December 31, 1936, was over 2,500 million zlotys, of which about 500 million zlotys were utilized for short-term credit operations in which the Bank performs all the normal functions of a deposit institution, besides primarily financing the numerous State enterprises, the local governments, authorities, agricultural, trading, and building co-operative societies.

About 970 million zlotys have been obtained by issues of the Bank's own mortgage and other bonds (guaranteed by the Government), and this capital is invested in long-term credits granted mainly for building and land-improvement operations and works conducted by urban and rural boroughs (about 40 per cent of the whole issue).

In addition, the Bank administers various funds, totalling about 770 million zlotys, on behalf of the Treasury; these funds are earmarked for certain important economic pur-

poses, such as housing, credits for enterprises run by the State or in which it has some considerable share, etc. The Bank also conducts the financial operations of the Treasury.

The National Economic Bank placed a small part of its municipal bond issues (4,000,000 zlotys) on the Swiss capital market in 1925. The proceeds of the transaction were primarily utilized in such fashion as to enable the City of Cracow to pay off its pre-War indebtedness in Switzerland. In 1927, Messrs. Lissmann & Co., of Frankfurt-on-the-Main, purchased a batch of 8 per cent Local Government Bonds issued by the Bank for the nominal sum of over 17 million zlotys. In addition, the National Economic Bank placed two issues of bonds in connexion with the loan arranged by Messrs. Ulen & Co. on the United States market, and one tranche of municipal bonds on the French money market. The table on page 87 gives details regarding the two American issues and the French one.

The first batch of dollar bonds was placed by the Bank in 1925 and the second in 1926 in connexion with public utility works put through by a number of Polish municipalities with Messrs. Ulen & Co., of New York; the details of this transaction are given on page 126. The fiscal agent for this loan is the Chase National Bank of New York. Subsequently (in 1930) the National Economic Bank placed upon

NATIONAL ECONOMIC BANK BONDS ISSUED ABROAD

<i>Year of Issue</i>	<i>Placed</i>	<i>Primary Sum of Investment</i>	<i>Type of Bond Issue</i>	<i>Date of Final Amortisation Instalment</i>	<i>Status (net) on January 1, 1936</i>
1925	Messrs. Ulen & Co., New York	\$9,714,000	8 per cent Communal Bonds, Series I (1925)	January 1, 1946	\$6,256,000
1926	Messrs. Ulen & Co., New York	\$2,750,000	8 per cent Communal Bonds, Series II (1926)	October 1, 1947	\$2,046,000
1930	Soc. Centrale des Banques de Province, Paris	25,000,000 Fr. fr.	7 per cent Communal Bonds, Series I (1930)	April 1, 1960	22,681,000 Fr. fr.

the French market through the Soc. Centrale des Banques de Province an issue of 7 per cent bonds at par for the sum of 25,000,000 French francs.

(6) GOODS CREDITS AND LOANS

Goods credits and loans do not constitute long-term charges of the national credit, and in effect merely represent the spreading of certain expenditure or investments of an exceptional nature over a few years.

The Polish Government has on several occasions had recourse to this method of financing certain needs of the State, and in this connexion three distinct periods should be enumerated.

I. The first loans of this type were granted to the Government by private firms during the first few post-War years, namely:

(a) *Baldwin Locomotive Works*.—An agreement for the delivery of 150 locomotives with tenders to the amount of \$6,965,000 was effected on July 28, 1919, i.e., before the first locomotive works were erected in Poland. The amount outstanding was covered by 5 per cent debtor scrip issued by the Treasury and was redeemed in seven annual instalments beginning in 1923.

(b) *Service Motor Truck Co., Wabash, Ind.*.—An agreement for the delivery of motor lorries (trucks) and their parts to the amount of

\$1,689,722 was made on July 27, 1921. The sum due was covered by 8 per cent Treasury scrip, redeemed at maturity on December 1, 1927.

(c) *Baltic-American Line*.—Debt incurred on January 7, 1922, in respect of the transport of munitions of war; the amount due (\$15,900) bore interest at the rate of 6 per cent per annum, and was paid off in two instalments by the end of 1922.

(d) *Banque de France*.—Debt of 3,566,115 French francs, incurred on February 18, 1919, for the printing of banknotes; paid off before 1922.

(e) *French private railways*.—Debt incurred for the transport of Government material, about 3,000,000 French francs.

(f) *Handley-Page, Ltd.*.—An agreement for the delivery of aircraft to the value of £121,725 was signed in 1919; the sum was payable without collateral guarantee in four instalments during the period 1921–33, the interest rate was 1 per cent above the current rate of the Bank of England.

(g) *Aeronautico Ansaldo*.—Three agreements for the delivery of aeroplanes during the years 1920–21 for the sum of 1,259,605 French francs and 1,440,074 lire; each transaction was paid off according to the terms of the contracts two years after signature of contract. The debt

in French francs bore 7 per cent, and that in lire 8 per cent per annum.

All the foregoing credits and loans have been duly paid off.

II. For a number of years during the second period, the Polish Government did not avail itself of this form of credit, as bond issues furnished sufficient funds to cover the non-recurring needs of the country. It was only in 1929 that the Government decided to revert to this type of credit, although in a somewhat changed form.

Wagon deliveries.—An agreement was concluded with the Lilpop, Rau and Loewenstein Wagon Company for the annual delivery and financing of 2,000 railway goods-wagons and 110 passenger wagons during a period of three and a half years, with the option of renewing the arrangement for another three and a half years. The sum covered by the first part of the agreement came to about \$11,000,000. The amount due was to be covered by a cash payment of 15 per cent when accepting delivery of each series of wagons, the remainder being covered by Treasury bills, payable with interest, in twenty half-yearly instalments.

The interest was fixed at the rate of the collateral security loan rate of the Bank of Poland with a guaranteed minimum of 7 per cent. The bills were issued in United States dollars, and made payable at the Chatham-

Phoenix National Bank and Trust Company of New York; they are financed by the Standard Car Finance Corporation Inc.

The wagons delivered under the contract serve as guarantee for the credit, this rolling stock being considered as leased to the Polish State Railways until the Treasury bills are redeemed.

The contract was not prolonged in 1933 for a further three and a half years due to the financial crisis in the United States, and the difficulties then prevailing in placing the bills on the American market owing to the devaluation of the dollar.

An understanding was concluded on September 28, 1937, between the Polish Government and Messrs. Standard Car Finance Corporation at Pittsburg, in respect of the regulation of the outstanding balance of the debt, then amounting to \$6 millions. The understanding has reduced the interest rate to $4\frac{1}{4}$ per cent per annum and has extended the duration of amortisation payments to the end of 1951; sinking fund instalments during the next four years have also been diminished and will amount to \$250,000 yearly, rising in later years by about \$500,000 each year.

Port of Gdynia.—It was likewise partly with the help of medium-term credits offered by the contractors and suppliers that the Polish Government financed the construction of the Port of

Gdynia during the last few years.* It is generally known that Poland built a large new port on the Baltic coast during the past decade in order to assure to herself direct maritime communication. The site chosen was at Gdynia, a tiny fishermen's village, which has been transformed into a large, up-to-date port and city of over a hundred thousand inhabitants; the port traffic of Gdynia already occupies second place on the Baltic, as can be seen from the following table.

SHIP TRAFFIC (ENTRANCES) AT BALTIC PORTS (1936)

(*In million net register tons*)

Copenhagen ..	5·5	Stockholm ..	3·3
<i>Gdynia</i> ..	4·9	Stettin ..	3·5
Danzig ..	3·3	Königsberg ..	1·8

These matters are of common knowledge, and it is superfluous to dwell on the subject, apart from mentioning that the total investments effected by the Government for the construction of the port in question amounted at the end of 1936 to about 260 million zlotys, whilst the expenditure of private persons and firms in building warehouses and installing trans-loading equipment came to about 50 million zlotys.

The expenditure of the State was *inter alia*

* The members of the Consortium des Travaux du Port de Gdynia were: Soc. de Construction des Batignolles; Hersent (Paris); Schneider & Cie (Paris); Ackermans & Van Haaren (Antwerp), and Messrs. Hojgaard Schultz of Denmark.

financed by the issue of medium-term debtor scrip of the Polish Government to the various contractors, the amount outstanding on July 1, 1937, amounting to 36·5 million zlotys. The scrip bears 5 per cent interest (8 per cent during the initial stages of the construction works), and are redeemable after a period of several years; they have been taken up by a consortium composed of French, Belgian, and Dutch contractors.

III. During the last three or four years the Polish Government has arranged for the entry of foreign capital in the shape of a new form of goods and cash loans. These transactions are primarily concluded in order to satisfy the needs for State investment works in those domains in which the Polish industries are not sufficiently developed. In view of this, certain of the larger contracts have been entrusted to foreign firms working on a credit basis, but with the stipulation that a part of the manufacture be carried out in Poland, within the limits of production of the Polish industries concerned. Payment for the total deliveries is made to the foreign contractors by means of Treasury bills, maturing some years after the completion of the contract. The foreign contractor is entitled to discount these bills abroad at any financial institution approved by the Polish Ministry of Finance. The Polish sub-contractors receive cash payment for their part of the deliveries.

The advantages accruing to Poland from such transactions are twofold, although they are not, from the general economic viewpoint, equal in importance to the purely financial advantages offered by foreign credits. They render the execution of certain necessary investment works possible, and at the same time they increase the influx of foreign exchange into the country. This influx is all the larger as the foreign contractors not only engage to buy a substantial part of the goods necessary from Polish suppliers, but they also usually have to pay agreed sums in cash to Government bodies as cover for the expenses which such bodies have to incur in Poland in connexion with the execution of contracts (costs of assembling, warehousing, building works, etc.).

On the other hand, this form of credit is much more advantageous to the creditor (i.e. to the country carrying out the works) than cash credits which are tantamount to a simple transfer of a part of his capital reserves (in gold) without any immediate recompense. In the former case, however, the creditor previously receives guarantees that there will be a supplementary export of commodities and services to the debtor country, and this enables the creditor country relatively quickly to make good a part of the capital efflux caused by the granting of the credit. This form of credit is particularly important during

times of depression. The creditor countries then betray a marked aversion to the depletion of their stocks of gold and foreign exchanges, whilst the industries engaged in the construction of large-scale investment works are in a large measure idle. It is obviously of the greatest importance for every industrial country that its industries be occupied as fully as possible during an economic depression, especially for export, and for this reason the various foreign governments usually support the efforts of exporters to conclude such transactions. The system of Government guarantees for export credits is particularly well organized in Great Britain.

The Polish Government has concluded the following more important transactions in the last few years upon the principles outlined above.

(a) *Automatization of the Telephone Systems of the Ministry of Posts and Telegraphs.*—On the strength of the law of October 22, 1931 (*Journ. of Laws of the Rep. of Poland*, No. 99, item 764), the Ministry of Posts and Telegraphs accepted a loan for the construction of automatic telephone exchanges in Polish Upper Silesia, and for the purchase of automatic telephone installations (Strowger system) from Messrs. Telephone and General Trust, Limited, of London, for the sum of £550,000, of which £250,000 was to be received in kind and

£300,000 in cash; the rate of interest comes to $8\frac{1}{4}$ per cent per annum, and the amortisation period is twelve years. The loan is secured by State-guaranteed bonds of the Posts, Telegraphs, and Telephones of Poland, a State enterprise. The bonds bear interest at $6\frac{1}{2}$ per cent, whilst the amortisation period is likewise twelve years, although the total issue is for the sum of £1,000,000. The bonds are handed over gradually as the creditor executes the deliveries and installations, and can be realized by him on the market, applying the proceeds for the redemption of the loan. Since the deliveries arising out of the loan agreement do not fully cover subsequent needs of the new telephone systems, the Ministry of Posts and Telegraphs has at the same time secured the right of utilizing the patents and patent rights of the following firms: Automatic Electric Co., Automatic Electric Inc., and the New Antwerp Telephone and Electrical Works. These are all patents included with the Strowger system, and are being made use of by the State Tele- and Radio-technical Works of Poland in the construction of smaller automatic telephone exchanges.

In the statement of indebtedness and financial guarantees of the State as on October 1, 1937, the sum of £115,141 appears as the total outstanding issue of these bonds upon that date.

This loan made it possible during the second

half of February 1934 to inaugurate the opening of an automatic district telephone exchange in Upper Silesia embracing two main exchanges, at Katowice and at Chorzów. The area covered by the new system is highly industrialized, and is inhabited by about 800,000 people. The initial capacity of the system was 9,700 subscribers, and the planned maximum capacity has been fixed at 20,600 subscribers.

(b) *Electrification of the Warsaw Main Railway Junction.*—An agreement was concluded in August 1933 for the electrification of the Warsaw Railway Junction between the Polish State Railways and Messrs. English Electric Co., Ltd., and the Metropolitan Vickers Electrical Export Co., Ltd., on the strength of a decree of the President (*Journ. of Laws of the Rep. of Poland*, No. 72, item 31). The transaction includes the delivery of rolling stock and the electrification of 215 miles of single-track line and 10 miles of station lines within the Warsaw Main Junction system during the period of four years. The loan is for an aggregate sum of £1,980,000, and consists of two parts: a cash loan of £530,000, and a goods credit of £1,450,000, of which £900,000 is to be spent in Great Britain and £550,000 in Poland.

Redemption is to be effected by quarterly instalments in pounds sterling at current rates of exchange, beginning in 1936 and ending in

1942. The rate of interest is 6½ per cent. The indebtedness arises gradually as the various stages of the works are executed. The security furnished in this transaction consists of promissory notes of the Polish State Railways guaranteed by the Treasury, and deposited in a mutually designated bank, which will release them upon payment of the respective instalments as they fall due. The prices of goods delivered have been fixed at world levels.

The list of financial guarantees given by the Republic of Poland, as on October 1, 1937, shows that the guarantee granted in connexion with this issue is for a total sum of £2,000,000. Work on the electrification of the junction is in full swing.

(c) *Installation of Compressed-air Brakes on Goods Wagons of the Polish State Railways.*—A decree of the President of the Republic on June 9, 1934 (*Journ. of Laws of the Rep. of Poland*, No. 53, item 486, June 29, 1934) ratified the agreement concluded between the Polish Ministry of Communications with Messrs. Westinghouse Brake and Saxby Signal Co., Ltd., of London, for the installation of automatic brakes on a number of goods wagons of the Polish State Railways at the cost of £4,800,000. The application of these appliances has considerable economic value as freight traffic is not only thereby much accelerated, but

economies are also secured in the exploitation of the lines. The system chosen is the Westinghouse brake in conjunction with the regulator and SAB empty-load box of the Svenska Aktiebolaget Bromsregulator (Malmö).

The deliveries are to be effected during the period of six years, every series of works being paid for by promissory notes of the Ministry of Finance bearing 6 or 6½ per cent interest; the interest sums being added to the face value of the promissory notes, which are payable at successive terms ending in 1944. About two-fifths of the order is to be executed in Great Britain, and the remainder in Poland.

The Ministry of Communications has received an important sum in cash from the Westinghouse Brake and Saxby Signal Co. for the assembly and installation of the brakes by the workshops of the Polish State Railways.

The loan is guaranteed by the revenues of the Polish State Railways and holds second place after the Dillon, Read & Co. loan.

The list of financial guarantees assumed by the Republic of Poland contains the item of £4,562,486, representing the status of this loan on October 1, 1937.

(It is of interest to note that so far every transaction effected by the Polish Government with Great Britain has been for an increasingly larger sum, and on better terms than the preced-

ing one; this points to a growth of confidence in Poland, and to greater interest being taken in her by that important financial centre—the British capital market.)

(d) *Smoke Consuming Equipment.*—An agreement was signed on September 21, 1934, between the Polish State Railways and Messrs. Pyram Soc. Anon. of Paris for the delivery of 3,300 smoke-consuming equipments for locomotives; the total sum involved amounts to 35,805,000 French francs.

This credit is to be paid off by instalments during the course of eight years, and bears 5½ per cent interest.

The contract foresees that over 70 per cent of the order will be produced in Poland and the remainder imported from France, but with the proviso that a certain proportion of every part of the apparatus will be Polish-made, so that in the future it will be possible to manufacture the complete apparatus in Poland.

Messrs. Pyram have granted a loan of 1,000,000 French francs to the Polish State Railways to cover the costs of installing the apparatus.

The list of financial guarantees granted by the Polish Government contains the item of 12,890,050 French francs, representing the status of this loan as on October 1, 1937.

(e) *Loans for Road Construction.*—Various but

not very important transactions concluded by the State Road Fund with several foreign firms for the construction of improved-surface roads upon credit terms may also be included among good-credits operations. The list of financial guarantees granted by the Polish Government as on October 1, 1937, shows that guarantees have been granted in connexion with the issue of Promissory Notes of the State Road Fund for Swiss francs 2,217,766, French francs 1,852,576, £71,688, \$189,587, and Swedish Kronor 1,559,322. The details regarding the Fund are given on page 222.

(f) *Credits taken up by other State enterprises.*—Apart from the above-mentioned credits of the Railways and the Road Fund, there are some which other State enterprises have accepted, the State Industrial and Corn Establishments, and the State Engineering Works, etc., being cases in point. These credits often appear in rather complex form, so that it is difficult to extract formal cash credits from goods credits and the need therefore arises of treating these jointly in such cases. The status of all foreign credits taken up by the State enterprises, together with those already dealt with herein, was officially returned at about 115 million zlotys at the end of 1935.

(7) FOREIGN CAPITAL WHICH ENTERED THE COUNTRY IN CONNEXION WITH THE OPERATION OF MONOPOLIES AND CONCESSIONS

One of the oldest forms of the participation of foreign capital in the economic life of other countries is represented by the financing of concessions in consideration of the right of sole exploitation of certain branches of production, transport, or commerce.

It is thanks to the system of concessions granted to foreign capital that in many countries extensive systems of railway lines, great electric-power stations, electric cable systems, telephone installations, etc., have been established. The granting of such concessions was in many cases connected with and made dependent upon the receipt of loans by the country granting the concession. This system was applied by Poland after the War in very restricted measure, there having been only a few cases, each of a different type.

(a) *The Match Monopoly.*—The largest transaction in this category was the concession for the exploitation of the State Match Monopoly,* which was leased out to foreign capitalists.

It was in order to secure means essential for

* Apart from the Match Monopoly, there are the following State monopolies in Poland: Tobacco Monopoly (manufacture and sale), Spirits Monopoly (sale of spirits and vodka), Salt Monopoly (sale), and the Lottery Monopoly.

the first attempt at stabilising a gold currency that the law of July 15, 1925 (*Journ. of Laws of the Rep. of Poland*, No. 83, item 561), enacted the setting up of the State Match Monopoly as from October 1, 1925. The object of the monopoly was originally the manufacture and import of matches (later extended to include petrol-lighters and semi-manufactured products for the production of matches). The Monopoly was leased out by the agreement of September 19, 1926 (by the law of July 2, 1926, *Journ. of Laws of the Rep. of Poland*, No. 85, item 471), for the term of twenty years to the Swedish-American Joint Stock Company for the Exploitation of the Polish State Match Monopoly, a subsidiary of the Svenska Tändsticks A.B. (Kreuger and Toll A.B.). On the strength of this understanding the lessees agreed to cover the needs of the country by domestic production of matches, to maintain the export of matches at the level of 33 per cent of the domestic consumption, and to furnish adequate sums of money to the Polish Treasury for buying out the private match factories for the account of the State. The leasehold fee was fixed at five million zlotys per annum, plus one-half of the net balance-sheet profit. Upon the expiration of the agreement, those factories which have been bought up by the lessees for exploitation, are to become the property of the State without

payment of any compensation. The leasehold company at the same time granted the Polish Treasury a loan of \$6,000,000 bearing 7 per cent interest, and secured by the revenues of the Monopoly. The proceeds of this loan were utilized to decrease the floating debt of the Treasury by redeeming Treasury bills, to reinforce the State Economic Fund, and to create a special fund for the reorganization of some private banking institutions which were in difficulties during 1925.

The agreement was revised in 1930 upon the request of the Svenska Tändsticks A.B. owing to the appearance of certain troublesome points during the execution of the understanding. The main items of the new agreement now in force are the following: the granting of a new loan of \$32,400,000 to the Polish Treasury for the term of thirty-five years at $6\frac{1}{2}$ per cent., issued at 93 per cent of parity; the amount outstanding (\$4,350,000) from the first loan to be deducted from the net proceeds of the second (\$30,132,000), thus leaving a net receipt of about \$26,000,000. The loan was accepted on the strength of the law of January 26, 1931 (*Journ. of Laws of the Rep. of Poland*, No. 9, item 46). The leasehold term was extended to 1965 (law of January 30, 1931, *Journ. of Laws of the Rep. of Poland*, No. 9, item 45). The leasehold company bound itself to endow the

factories with a working capital of 25 million zlotys upon the expiration of the agreement. The obligation to export Polish matches was cancelled. The price of matches was raised concurrently with the conclusion of the new agreement. The amounts receivable by the State were likewise revised: the Treasury now receives 688 zlotys and an excise duty of 84 zlotys per million matches sold; the consumption of matches during the fiscal year 1938–39 is estimated at about 17,700 million matches, a figure which should increase greatly as it is still nearly half the pre-depression level.

The sums yielded by the loan were utilized for various purposes, including building works at the Port of Gdynia and the extension of the telephone system. About 70 million zlotys were utilized for the premature redemption of some internal Government indebtedness, thanks to which greater liquidity was attained on the capital market, chiefly in respect of the State-owned banks.

The agent of the loan is the Svenska Tändsticks A.B.; the bonds have not been placed on the market (although the creditor is empowered to do this), and are not therefore quoted on the stock exchanges. They are secured by the income and receipts of the Match Monopoly, which in 1936–37 came to 12,495,827 zlotys, and which have been estimated at 13,250,000 zlotys

in the Budget for 1937-38. The sum of 3,062,144 zlotys is estimated for in the 1937-38 Budget for the service of this debt, 1,442,877 zlotys being allotted for sinking-fund operations, and 1,619,267 zlotys for interest payments. The balance of this debt outstanding on October 1, 1937, amounted to \$30,770,205 (163,998,827 zlotys).

An arrangement was made on June 1, 1937, with bondholders of the 6½ per cent loan of 1930 whereby they agreed to accept twenty-year 3 per cent Treasury notes in exchange for three coupons, beginning with that due on October 1, 1936. They also agreed to reduce the interest rate of the loan to 4½ per cent per annum; the present bonds will be changed for new ones in 1939, but the new rate of interest applies from October 1, 1937 (*Journ. of Laws of the Rep. of Poland*, No. 1, January 7, 1938, item 1).

(b) *Polish Telephone Joint Stock Co., Warsaw, Concession.*—The Warsaw telephone system was before the War exploited by the Cedergren Telephone Joint Stock Co. of Stockholm. As after the War the Polish Ministry of Posts and Telegraphs had insufficient funds for extending the telephone system in a number of towns, the exploitation of the systems in Warsaw, Lodz, Bydgoszcz, Borysław, Lwów, Lublin, and Białystok was in 1922 taken over by the Polish Telephone Joint Stock Co. of Warsaw, specially

formed for this purpose. The inter-urban system was, however, excluded from this understanding. The initial capital of the Company was fixed at 18·9 million French francs, divided into two allotments: allotment A, three-sevenths of the total, taken up by the Polish Treasury in consideration of transferring the above-mentioned urban systems (excluding Warsaw) to the Company, whilst allotment B, four-sevenths of the stock capital, was bought by the Cedergren Telephone Co., but with the proviso that part of this allotment, one-seventh of the total stock capital, would be disposed of by public subscription in Poland. Stock of allotment A cannot be sold without the consent of the Cedergren Telephone Co., or of its successors, whilst stock of allotment B similarly cannot be disposed of without the consent of the Ministry of Posts and Telegraphs. The Polish Telephone Joint Stock Co. has the right to issue debenture bonds secured by the whole property of the Company.

After the lapse of twenty-five years, stock of allotment B can be redeemed by the Treasury at par plus an appropriate share of the reserve funds due to the holders of group B stock, but which in no case can exceed 10 per cent of the par value of the shares.

The Polish Telephone Joint Stock Co. paid the Cedergren Telephone Co., in exchange for

the latter's Warsaw telephone system, 15,000,000 Swedish kronor in 7 per cent bonds maturing in twenty-five years, and payable in Swedish currency.

The rights of the Cedergren Telephone Co. were subsequently taken over by the L. M. Ericsson Telephone Co. of Stockholm, and in connexion with this transfer the stock and bond capital was increased: it now amounts to 42·4 million zlotys stock capital and 53·2 million zlotys secured by debenture bonds.

The various groups have the following shares in the stock capital of the enterprise: the Polish Treasury, 18·2 million zlotys; L. M. Ericsson and Co., 21·1 million zlotys; and the group of Polish shareholders, 3·1 million zlotys. The stock owned by the Swedish group is therefore less than one-half of the total share capital. The various telephone systems owned by the Company have been extended and automatized. The last published balance sheet is given on page 109.

The following dividends were paid by the Polish Telephone Joint Stock Co. during the past few years: 5 per cent in 1926, 8 per cent in 1927, 10 per cent in 1928 and 1929, and 12 per cent annually during 1930-36 inclusive.

(c) *Silesia-Baltic Railway Concession.* The concession for the construction of the railway line joining Herby Nowe with Gdynia (having a

BALANCE SHEET OF THE POLISH TELEPHONE JOINT STOCK COMPANY

(Status on December 31, 1936)

LIABILITIES	Zlotys	ASSETS	Zlotys
Share capital .. .	42,477,120	Land .. .	1,652,611
Reserve capital .. .	4,680,010	Buildings .. .	7,472,632
Redemption capital .. .	52,961,885	Technical installations .. .	137,011,639
Bonds issued .. .	51,596,355	Machines .. .	976,584
Creditors .. .	2,244,078	Tools .. .	380,476
Fund for taxes .. .	3,819,053	Movables .. .	947,772
Transient sums .. .	1,254	Cash in hand and at disposal .. .	7,500,815
Profits from previous years .. .	1,190,000	Securities and bonds .. .	1,120,170
Carried to reserves .. .	626,751	Materials on stock .. .	5,190,738
Grants .. .	143,508	Debtors .. .	2,313,589
Carried to profits from previous years .. .	400,000	Transient sums .. .	670,242
Profits (for dividends) .. .	5,097,254		
Total .. .	165,237,267	Total .. .	165,237,269

total length of 321 miles, including sidings, and affording direct connection between the Upper Silesian coalfields and the Baltic Sea) was granted on April 27, 1931 (*Journ. of Laws of the Rep. of Poland*, No. 40, items 350 and 351) to the Soc. Anon. Compagnie Franco-Polonaise de Chemins de Fer of Paris, specially formed for this purpose.

The stock capital of this Company amounts to 15,000,000 French francs, of which 8,000,000 francs were furnished by a French consortium, headed by the Banque des Pays du Nord and by MM. Schneider & Co., and 7,000,000 francs by the Polish State Railways (a State enterprise).

The concession was granted for the term of forty-five years, i.e. up to the end of 1975. The Polish Government has the right to buy out the concession as from 1951. The Government guarantees the interest and amortisation payments on the bonds, and has the right of participation in the profits of the enterprise according to certain fixed ratios specified in the concession deed of April 29, 1931.

In order to secure funds for constructing this line, the Company was to have floated two or three issues of bonds for an aggregate maximum sum of 1,100,000,000 French francs, but it succeeded at first in floating only one issue (consisting of bonds to the face value of 400,000,000 French francs at 94 per cent issue price, and

bearing 6½ per cent interest). The second series of bonds, which was to have been put on the market before May 1, 1932, was not issued at the time owing to the financial position of France becoming worse in connexion with a deepening of the crisis on the French money market as a result of the world-wide economic depression. It was only in 1937 that the second tranche was issued (540 million francs in forty-year bonds bearing 6 per cent), with the help of the French Government and in conjunction with the loan granted to Poland in that year.*

From the proceeds of the second issue the Company will carry out the following works:

- (1) The completion of the Gdynia and Herby-Nowe line;
- (2) The construction of the Siemkowice-Częstochowa branch line (35 miles);
- (3) The laying down of a second track on the Siemkowice-Karsznice-Inowroclaw and the Nowa-Wieś and Wielka-Kapuścisko lines.

The exploitation of the line has been provisionally entrusted to the Polish State Railways (since March 1, 1933) in accordance with an agreement with the Polish Government, until the construction works will have been finished

* On April 1, 1937, the Polish Government borrowed from the Company 405,000,000 French francs.

and the rolling stock purchased. The Company took over the management on January 1, 1938.

The net profits arising out of the exploitation of the line in 1934 amounted to 2,270,151 zlotys, this sum being well above the figure for 1933 (ten months), when the net profits were returned as 1,023,526 zlotys. Both these sums were fixed after the deduction of all exploitation costs and of the service of the stock and bond capitals. By adding to the net profits for 1934 those sums which had been deducted in accordance with the concession deed as credited to the account of the Company during the exploitation (2,077,526 zlotys), the total profits amounted to 4,342,643 zlotys.

The net profit has been transferred in its entirety to the Polish State Railways in accordance with an agreement between the Company and the Polish Government.

It will also be of interest to note that the Company has during the period covered by the balance-sheet for 1934 redeemed bonds to the value of 4,471,000 French francs; from the foundation of the Company to December 31, 1936, it redeemed bonds to the value of 19,086,000 French francs (i.e. more than had been foreseen by the plan of amortisation). The net profit on the operation of the railway in 1935 amounted to 7,380,300 zlotys.

The balance-sheet total of the Company

as on December 31, 1936, amounted to 420,623,059·09 French francs. The more important items on the assets side were: 390,055,225·60 francs, representing the cost of construction of the line; the account of the Polish State Railways is given as 14,750,000 francs, this amount consisting of two sums: 11,250,000 francs paid by the Company for the purchase of rolling stock for the line, and 3,500,000 francs paid into the floating fund for the exploitation of the line. The liabilities include the stock capital of 15,000,000 francs fully paid-up, and the debenture capital of 400,000,000 francs representing 400,000 bonds each of 1,000 francs parity.

The coefficient of operation (ratio of gross operating costs and receipts) in 1936 came to the very favourable figure of 60 per cent; that year was still a period of depression in Poland and with the return of better general conditions the future of the Company would appear to be quite attractive.

The quotations of the 6½ per cent bonds in question in December 1935 were 580–610 French francs per 1,000-franc bond, and 720–750 francs a year later.

(d) *Electric Suburban Railway*.—It was thanks to guarantees granted by the Polish Government to British capitalists that the Electric Suburban Railways Joint Stock Co. (established in 1923) could carry out the construction of the

Warsaw-Grodzisk electric railway (length of track, 25 miles), an important service for the suburban passenger traffic of Warsaw.

The stock capital of the Company amounts to 1,500,000 zlotys, and the debenture capital secured in connexion with cash and goods credits granted for the building of the line amounted to: (1) £275,000 in respect of 6½ per cent bonds guaranteed by the Polish Treasury, and redeemable by 1942; (2) 2,000,000 belgas in respect of 6½ per cent bonds, redeemable by 1973, and likewise guaranteed by the Treasury. In addition, the Company has received a long-term cash credit, covered by 6½ per cent bonds, guaranteed by the Treasury up to the sum of £120,000.

The institutions financing the Company are the Power and Traction Finance Co. (Poland), Ltd., of London, and the Trust Metallurgique, Electrique et Industriel of Brussels. The concession expires in 1979.

The list of financial guarantees granted by the Polish Government as on October 1, 1937, shows that guarantees granted for this railway are for 2,000,000 belgas, £188,726 and £15,883.

(e) *Dąbrowa Basin Electric Tramways*.—After the incorporation of Polish Upper Silesia within the Republic of Poland, the need arose for furnishing some convenient passenger communication between the chief towns of the Dąbrowa

Coalfields and Katowice, the capital of Polish Upper Silesia. The plan was realized by Messrs. Tramwaje Elektryczne w Zagłębiu Dąbrowskim, a limited company established with the help of British capital (stock capital 3,200,000 zlotys, and a Treasury-guaranteed debenture indebtedness of £160,000 for the cover of goods credits and about £50,000 cash credit). The bonds bear 6½ per cent, and are to be redeemed by 1941. The sums guaranteed by the Treasury as on October 1, 1937, were for a total of £108,541 in favour of the Power and Traction Finance Co. (Poland), Ltd.

The length of the lines constructed is 16 miles, and the concession is valid up to the year 1972.

(f) *Other concerns.*—Apart from the foregoing, ten limited companies in which foreign capital participated were established in Poland after the War for the construction and exploitation of electric-power stations on the basis of concessions, but without any guarantees of the Polish Government. The aggregate capital of these companies amounts to about 43·0 million zlotys and is held solely by private capitalists. In particular, the Power and Traction Finance Co. granted the following credits to the electric power stations indicated below: in the Dąbrowa Basin district, £134,300 goods and £9,000 cash credits to the Elektrownia Okręgowa w Zagłębiu Dąbrowskim; £71,000 goods and £11,000 cash credit to the Elektrownia Okręgowa

w Zagłębiu Krakowskim S.A.; £61,000 goods credit to the S.A. Sieci Elektrycznych, and, together with Messrs. Utilities Corporations (Poland), Ltd., goods credits for £151,000 and a cash credit of £561,000 to the Elektrownia Okręgowa Warszawska S.A.

8. GOVERNMENT GUARANTEES

The Polish Government has guaranteed a number of loans and other obligations incurred towards foreign creditors in cases when this additional security (granted on the strength of special laws or decrees of the President of the Republic) facilitated the influx of relatively large sums of foreign capital into the country for purposes connected with the general interests of the State, and upon conditions approved by the Ministry of Finance.

Mention has already been made of the guarantees extended by the Government in connexion with foreign indebtedness. A full list of these guarantees is given in Appendix D; it will be observed that their aggregate sum is such that it cannot appreciably affect the relatively inconsiderable indebtedness of the Republic of Poland compared with that of other countries. The total sum paid out by the Polish Government for its guarantees amounted for the period 1928/9—1936/7 in Poland as well as abroad to only 49 million zlotys.

B. LOCAL GOVERNMENT BOARDS

I. LOAN ISSUES BY PUBLIC SUBSCRIPTION

The total amount of loan issues floated abroad by the local government authorities of Poland is quite small. Taking all the bond issues, cash and goods credits comprising the foreign indebtedness of these boards as on December 31, 1935, we receive the aggregate figure of 212·4 million zlotys, which sum, however, excludes sums due to Messrs. Ulen & Co., that is to say, indebtedness which is formally borne by the National Economic Bank and not by the municipalities.

For the sake of comparison it would be well to consider the above very modest figure in relation to the corresponding data for German local government foreign loans during the period 1924–30: the sum thus borrowed came to about \$500,000,000, in spite of the fact that the needs of the German cities had well before this period already been satisfied to an incomparably greater degree than those of the Polish towns and provinces. The population of Germany, too, is only double that of Poland.

Bonded indebtedness plays a predominant part within the entirety of the foreign debts of the Polish municipalities since it amounts to 181·2 million zlotys, or about 85 per cent of

the aggregate sum quoted above. This figure should, however, be corrected by the deduction of bonds which have found their way to Poland; bonds for the nominal value of about 30 million zlotys (approximately 16·5 per cent of the total issue) were held by Polish bondholders towards the end of 1935. More than two-thirds of the total bond issue is in the hands of United States bondholders, whilst British and French bondholders possess bonds for about 23 and 16 million zlotys respectively.

The high share of the United States in the total bonded indebtedness of the Polish municipalities is accounted for by only two issues: the 7 per cent Province of Silesia and the 7 per cent City of Warsaw loans.

(a) Data on the two loans are given in the table on the opposite page.

The New York Stock Exchange quotations of these bond issues have been as follows:

<i>Issue Rate</i>		<i>Average Quotation in 1932</i>	<i>Quotation December 31, 1937</i>
7 % City of Warsaw (1928)	.. ..	89 %	38
7 % Province of Silesia (1928)	..	89 %	56
			39
			55

For purposes of comparison, the New York Stock Exchange quotations of the bond issues of certain cities which enjoyed the confidence

<i>Debtor</i>		<i>City of Warsaw</i>	<i>Local Government Treasury of the Province of Silesia</i>
Year of issue	.. ..	1928	1928 (Law of February 28, 1928)
Initial sum	.. ..	\$10,000,000	\$11,200,000
Issue rate	.. ..	89 per cent	89 per cent
Redemption rate	.. ..	102 per cent	Parity
Nominal interest rate	.. ..	7 per cent	7 per cent
Term of loan	.. ..	30 years	30 years
Mode of amortisation	.. ..	Half-yearly	Half-yearly
Object of loan	.. ..	Municipal investment works (communication needs, lighting, hygiene and sanitation, public safety, and building)	Investment works (waterworks, sewerage, electrification, gas-works, abattoirs, market halls, suburban railways, etc.)
Fiscal agents	.. ..	Stone, Webster and Blodget, New York City	Stone, Webster and Blodget, New York City
Stock Exchanges	.. ..	First National Corporation, Mass.	First National Corporation, Mass.
Guarantees	.. ..	New York City	New York City
		Cash deposit of \$400,000; receipts from City's share in State taxation; receipts from House and Apartment Tax and Railway Loadings Tax. In addition, the City guarantees that its expenditure on loan service will not exceed one-quarter of its ordinary revenue	Guarantee of the State

of banks and private investors are given below:

	<i>Issue Rate</i>	<i>Quotation Dec. 31, 1937</i>
6 % City of Berlin ..	95 %	20
8 % Rio de Janeiro (1922)	103 %	10½
6 % São Paulo (1927) ..	98 %	8
6 % City of Budapest ..	92 %	22

Some idea will be given of the indebtedness of the City of Warsaw as on April 1, 1935: the total outstanding debt on that day amounted to 237,600,000 zlotys, the equivalent of £5·5 million gold, i.e. £4 12s. od. gold per inhabitant. Of the above total, 124·7 million zlotys represent bond indebtedness, 74·9 million zlotys miscellaneous debts, and 38·0 million zlotys as obligations arising out of conversion operations. Of the total bond indebtedness, 48·3 million zlotys represent the American bond issue, 15·7 million zlotys the School Building Loan of 1928, and about 60 million zlotys the outstanding sum of pre-War indebtedness and debts incurred before the stabilisation of 1924; the last-named sum includes a conversion loan of 18·7 million zlotys floated on the French money market.

It will be of interest to compare the above figures with the corresponding data (on page 121) for three large cities in other countries.

(b) These two American loans excluded, all the foreign bond issues of the local government boards in Poland have arisen in connexion

INDEBTEDNESS OF THE CITIES OF PARIS, BERLIN AND NEW YORK

SOURCES AND FORMS OF INFLUX

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PARIS

Indebtedness on December 31, 1935.

	Internal debt	External debt	Total	Approximate indebtedness per inhabitant (1936)
Internal debt	15,669 million French francs, i.e.	£211,000,000
External debt	298 million French francs, i.e.	4,000,000
			Total	.. .. ..
				£215,000,000
				£76

BERLIN

Indebtedness on December 31, 1935.

	Internal debts	External debt	Total	Approximate indebtedness per inhabitant (1935)
Internal debts	980 million Reichmarks, i.e.	£80,300,000
External debt	149 million Reichmarks, i.e.	£12,200,000
			Total	.. .. ..
				£92,500,000
				£22

NEW YORK CITY

Indebtedness on August 15, 1935.

	Total funded indebtedness	Approximate indebtedness per inhabitant (1935)	NOTE.—All the sums have been computed according to the rate of exchange on October 23, 1935.
	.. 1,501 million United States dollars, i.e.	.. .. ..	£307,000,000
			£40

with the conversion of pre-War bonded indebtedness. These converted bond issues are: $4\frac{1}{2}$ per cent City of Warsaw Loan (1931), the 5 per cent City of Wilno and the $3\frac{1}{2}$ and 4 per cent City of Poznan Loans. The City of Poznan (former German mark, now zloty) bonds were converted in 1927; the outstanding as on July 1, 1937, was 4,354,160 zlotys. Some of the municipalities still have unconverted bonded indebtedness incurred before the Great War, but for insignificant sums which have been included in the list of ordinary debts.

The most important data on the City of Warsaw and City of Wilno loans are given below. The $4\frac{1}{2}$ per cent City of Warsaw bond issue was floated in 1931, the sum having been fixed at 33,000,000 zlotys; a part of this issue, in accordance with an agreement concluded with the French National Association of Bond-holders (Association Nationale des Porteurs de Valeurs Mobilières), was destined for the conversion of a part of the pre-War $4\frac{1}{2}$ per cent bond issue of the City of Warsaw (1903), placed in France for the sum of about 33,000,000 roubles. In the execution of the agreement, the Association arranged for the registration of bonds in Paris in order to prove that the holders had been in possession of them before the outbreak of the Great War. The registered bonds represent a

total face value of rather less than 20,000,000 roubles. The conversion was carried out by applying the ratios of 100 roubles = 99·186 zlotys = 284 French francs = £3 16s. od.

The conversion loan was floated upon the French market for the total sum of 55,912,500 French francs = 19,527,234·75 zlotys = 11,352,993·75 Swiss francs, the bonds being issued in three denominations: 284 French francs = 99·186 zlotys = 57·666 Swiss francs. The issue is to be redeemed within the time-limit of forty-five years. The bondholders are liable to French Income Tax charges, but Polish taxes are paid by the City of Warsaw. The quotation of these bonds upon the Paris Bourse on December 31, 1937, was 190 francs. The remainder of the issue was utilized for the conversion of that part of the 1903 issue held by Polish bondholders. The outstanding amount due in respect of the French allotment of bonds on October 1, 1935, came to 18,681,900 zlotys. The service of this allotment in 1935-36 required 177,200 zlotys for sinking-fund payments and 838,000 zlotys for interest payments, i.e. a total of 1,015,200 zlotys.

The conversion of the 5 per cent Wilno loan of 1912 affords a typical case of how loyally Poland meets her obligations with regard to foreign capital even when the obligation is open to serious legal doubts.

Two years before the outbreak of the Great War, and while the city was still in the hands of the Russians, the Wilno City Council floated a 5 per cent bond issue for the sum of 4,244,562 roubles (equivalent to £449,360) for the installation of waterworks and other municipal investments. In accordance with the agreement with the bondholders, a part of this sum (600,000 roubles) had to be deposited at St. Petersburg, with the result that, upon the Bolshevik revolution, this money was lost, and the net amount received by the city came to barely 77 per cent of the nominal sum borrowed. The city was occupied by the German army in the autumn of 1915, and the service of the issue was interrupted from that time, the balance then outstanding being £446,820.

Following negotiations with the representatives of the bondholders, it was decided that, although the securities were payable in roubles, the possibility existed that the British investors had subscribed on the understanding that the loan was in pounds sterling, and the Polish Government therefore agreed to authorize the City of Wilno to revalorize the roubles into pounds sterling at the pre-War rate of parity. The amortisation period was extended to 1990, that is to say by sixteen years—the term during which the service of the loan was suspended owing to the War and its aftermath. The interest

rate remained unchanged. The service of the debt was resumed by payment of the coupon due May 15, 1931, simultaneously with the conversion of the old bonds into the new loan. The fiscal agent of the loan issue is the British Overseas Bank, which has done much to develop foreign credits for Poland. The amortisation of the issue is effected by drawings or by purchases upon the open market. Half the service of the loan was covered by the Treasury and the other half was guaranteed by the local government supplements on State taxation due to the city; in accordance with the law of March, 1938 (*Journal of Laws of the Polish Rep.*, No. 28, item 247), the whole of the service has now been taken over by the Government. The right of conversion has not been granted to citizens of the U.S.S.R. in view of the regulations in force there enacting the confiscation of securities. The unamortised outstanding amount of the issue on January 1, 1936, amounted to £398,360.

2. LOCAL GOVERNMENT LOANS GRANTED BY FOREIGN FINANCIAL INSTITUTIONS

Apart from the above publicly subscribed loan issues, some of the Polish towns contracted loans for smaller sums from foreign banks. The City of Poznań loan was received towards the end of 1928 from the British Overseas Bank of London,

the issue being one of 7 per cent (now 6 per cent) bonds totalling £500,000, and redeemable within twenty-five years. The amortisation rate was fixed at 1·6 per cent. The aggregate service of all foreign and domestic, long and short term indebtedness of the City of Poznań (total at the end of the fiscal year 1934–35: 62·7 million zlotys) required about 6,700,000 zlotys, that is to say, about 16 per cent of the total ordinary and extraordinary budgetary expenditure. The property of the City of Poznań has been assessed at about 255,000,000 zlotys. A loan of 1,000,000 Swiss francs, borrowed from Swiss banks by the city in 1924, was repaid in full in 1934.

The City of Gdynia borrowed 4,000,000 Swiss francs from the Schweizerische Bankgesellschaft of Zürich in 1930 for the electrification of the city. The loan primarily yielded 9 per cent interest and 5 per cent since 1937, when an arrangement was made for the redemption of the outstanding amount during twelve years.

3. LOCAL GOVERNMENT INDEBTEDNESS TOWARDS FOREIGN CONTRACTORS

Ulen & Co. Credits.—In view of the fact that many of the towns and cities of Poland suffered from a lack of public utility installations (such as sewerage systems, abattoirs, market halls, etc.), and the population, impover-

ished by war and economic crises, could not raise all the capital necessary for such investment works by means of taxation or of internal loans, two transactions were concluded with Messrs. Ulen & Co., of New York, in 1925 and in the following year for the installation of public utility works in the towns of Częstochowa, Lublin, Radom, Piotrków, Sosnowiec, Dąbrowa Górnica, Kielce, Zgierz, Otwock, and Ostrów-Wielkopolski.

In accordance with the agreement, Messrs. Ulen & Co. undertook as contractors to build sewerage systems, or waterworks, or abattoirs and market halls, or public baths and electric-power stations in the various towns mentioned above, the remuneration to be 15 per cent of the nominal sum of the loan contracted. The National Economic Bank (Warsaw) arranged to finance these transactions by floating a municipal bond issue of \$10,000,000 for the first series of works, and \$2,800,000 for the second. Both issues bear 8 per cent interest, and the issue rate of the bonds was fixed at 86 per cent or 87 per cent of parity. The twofold issue rate of 86 and 87 per cent is explained by the fact that Messrs. Ulen & Co. granted a premium of 1 per cent when accepting bonds from towns which already had plans for a sewerage system; in practice, the basic issue rate was 86 per cent, and the premium of 1 per cent was granted

upon the commencement of construction works.

The bonds were deposited with a trustee for the duration of the building of works, and were gradually handed over to Messrs. Ulen & Co. as the construction advanced, the bonds being used by Messrs. Ulen & Co. as the basis of loan issues of their own in America, floated in order to raise funds necessary for executing the works. The bonds are guaranteed by the debtor scrip of the towns, by the Republic of Poland, and by the National Economic Bank.

Detailed data regarding these bonds are given in sub-section A5 in connexion with loans of the National Economic Bank (see p. 87).

An understanding was attained on September 26, 1937, at New York between the National Economic Bank, Messrs. Ulen & Co., and the Chase National Bank of New York (the fiscal agents), regarding the unredeemed portion of the Ulen loans which then amounted to \$7,719,000. The agreement reduces the interest rate from 8 to 3 per cent per annum, besides extending the amortisation period from 1947 to 1967, whilst no sinking fund payments will be made during the next four and a half years. This understanding has greatly reduced the sums which it will be necessary to transfer for the service of the debt. The service of this debt

before the suspension of transfer amounted to \$1,200,000 per annum; the sum now necessary will be, it is expected, about \$230,000 yearly.

Miscellaneous Credits.—The towns of Kalisz, Włocławek, and Rypin accepted minor goods credits from the Atlas-Diesel Co., of Sweden, in connexion with the construction of electric-power plants. These credits were all for short or medium terms.

The indebtedness of all these cities, including the pre-War bonded debts of the municipalities already mentioned (but excluding sums due to Messrs. Ulen & Co.), totalled 31·2 million zlotys on December 31, 1935. About a half of this sum is due to Sweden, and about 6 million and 4 million zlotys to Switzerland and Germany respectively.

C. FOREIGN CAPITAL IN PRIVATE ECONOMY*

Concurrently with the foreign capital which entered Poland after the War in order to meet the needs of the State and of the various municipal boroughs, a perhaps even larger influx of capital took place in meeting the requirements of private economy.

* The data in this section are mostly from the annual publication *Bilans Płatniczny Polski* (Poland's Balance of Payments), Chief Bureau of Statistics of the Rep. of Poland, Warsaw.

The movement was commenced by the foreign owners of enterprises in Poland transferring sums necessary for the resumption of work in plants which had been idle during the War; in many cases appropriate funds for adapting the factories to the new needs of economic life also had to be sent.

The next step consisted in the granting of goods or of bank credits for enterprises in Poland by their foreign suppliers and financiers on the basis of pre-War relations, often old-established and reaching back for many years.

Foreign capital likewise participated in financing various new industrial and banking enterprises upon the territory of restored Poland.

The total amount of foreign capital supplied to private economy in Poland, or invested in it, slightly exceeds the sum lent to the State and the local governments, since it came to 3,800 million zlotys on January 1, 1936, as against 3,600 million zlotys lent to the public bodies.

The estimates of the amount of capital engaged in private economy are naturally less precise than those of loans furnished to the State and to local government authorities; but the table on page 131 gives figures which are reasonably close.

It follows from this table that during 1929-35 the private business life of Poland paid off

FOREIGN CAPITAL IN POLISH PRIVATE ECONOMY

Year (Dec. 31)	(In Million Zlotys)					<i>Total</i>
	<i>Short-term Bank Credits</i>	<i>Cash Credits to Industrial Enterprises</i>	<i>Goods Credits</i>	<i>Share in Polish Enterprises</i>	<i>Capital and Credits of Branches of Foreign Enterprises</i>	
						<i>Long-term Bond Credits*</i>
1929	676	1,828	1,116	1,474	366	194
1930	643	1,829	525	1,654	371	189
1931	401	1,884	244	1,685	340	317
1932	292	1,689	138	1,751	326	312
1933	248	1,540	122	1,754	323	310
1934	259	1,262	110	1,737	312	284
1935	276	1,154	95	1,692	301	273

* Private long-term mortgage credit institution loans and long-term debenture bond-issues of private enterprises.

about 1,850 million zlotys of foreign debts, that is to say, nearly one-third of the sums invested or advanced by foreign capital in 1929; of the total sum redeemed, over 1,000 million zlotys represented goods credits.*

The table also indicates another point of interest, viz., that the largest efflux of private foreign capital from Poland took place in 1931. It is significant that the outward movement did not begin earlier and that it began to lose in force to some extent as late as 1935. This, however, is a natural consequence of the fact that the largest items in Poland's private foreign indebtedness originate from large concerns, or at least come from parties who not only operate in the financial field but are also bound to the Polish enterprises by other ties.

During the first phase of the crisis as regards this type of capital, fresh capital even flowed into the country but in much smaller volume. It was then that the more volatile capital sums were withdrawn: inter-bank and goods credits. When the depression became most acute, in 1932, the status of these credits was at such a low level that further reduction was out of the question. Later, as the enterprises attained more and more

* It is very difficult to discern the exact annual redemption of such indebtedness; the data for the component years of the period under examination are therefore less reliable than the aggregate figures secured by deducting the 1935 figures from those for 1929.

liquidity in the composition of their assets, the longer-term capital invested began to leave the country, with the result that in spite of the gradual recovery evident on the Polish market as from 1934, no diminution in the pressure on the balance of payments took place although the contrary might have been expected. This was one of the principal factors which caused Poland to introduce foreign exchange control and restrictions at the beginning of 1936.

I. PRIVATE LONG-TERM MORTGAGE CREDIT INSTITUTION LOANS

It is possible to embrace in a separate group all the obligations contracted by long-term mortgage credit institutions, operating as associations based on the co-operation of the owners of certain categories of real-estate, who have formed long-term mortgage credit institutions enjoying the right of floating long-term (thirty-year and upwards) bond-issues upon conditions approved by the Government, which exercises control in order to assure proper provisions for the payment of interest and sinking fund. Such associations are empowered by the State to exercise the sole right of operations upon a given territory, and enjoy a number of privileges facilitating the collection of outstanding debts; in addition, the bonds of such bodies are

invariably treated as trustee securities, and in certain cases are also guaranteed by the State. In Poland bonds of this category are in steady demand as a means of investing savings. It is in view of the fact that securities of this type are recognized as trustee scrip that they have been classified here as a separate group.

The institutions issuing such bonds have so far utilized foreign credits in only a moderate degree, namely, for the total sum of about £2,000,000, as can be seen below.

(a) *Land Credit Association of Warsaw* (*Towarzystwo Kredytowe Ziemskie*, also known as the Land Mortgage Bank of Warsaw), placed the following issues abroad:

\$280,000 in 1926 on the British capital market
\$320,000 in 1927 on the British capital market
\$900,000 in 1927 on the United States capital market
\$350,000 in 1928 on the United States capital market

Total \$1,850,000 and

Fr. 50,000,000 in 1929 on the French capital market

The status of these bond-issues on January 1, 1936, amounted to \$924,450 and 45,054,000 French francs. The dollar issue consists of 8 per cent mortgage bonds of the series of 1924 (redeemable in 1941), guaranteed by the State; the French issue is redeemable within the term of thirty years, and consists of 6 per cent mortgage bonds of the series of 1929. The bonds issued in French francs are quoted on the Paris

Bourse, and in January 1936 were dealt in at the average rate of about 63 per cent of parity. The dollar bonds were at the same time quoted at 86 per cent.

(b) *Poznań Land Credit Association* (Poznańskie Ziemstwo Kredytowe) placed the following issues abroad :

4½ per cent dollar mortgage bonds (1933) in Great Britain	\$675,000
4½ per cent dollar mortgage bonds (1933) in the United States	\$900,000
4½ per cent gold dollar mortgage bonds (1933) in Holland	\$600,000

In addition, an issue of 4 per cent conversion mortgage bonds of 1925 placed in Germany has an outstanding balance of about 10,000,000 zlotys; these bonds were issued in connexion with the conversion of pre-War German-mark bonds.

(c) *Lwów Land Credit Association* (Towarzystwo Kredytowe Ziemskie we Lwowie) has not placed any foreign bond issues direct, but on December 31, 1932, the 8 per cent mortgage bonds issued by this Association were held in Switzerland and Austria for the total of \$540,000. A considerable part of these bonds has been repurchased on Polish account. The amount still outstanding abroad at the beginning at 1936 was for a total value of about \$200,000. The amortisation period is sixteen and a half years for a part of the issue, and thirty-three years for the remainder.

(d) *Polish Industrial Credit Association* (Tow. Kredyt. Przemysłu Polskiego), Warsaw, has not effected any foreign bond-issues on the market direct, although it has issued mortgage bonds in dollars and pounds sterling. As on October 1, 1937, there were in circulation 6 per cent bonds guaranteed by the Government for the amount of \$1,011,914·43, and two issues of sterling bonds, guaranteed by the Polish Government, bearing 7 and 8 per cent per annum; those of the first issue (of which there are about £171,000 in circulation) mature in 1951, and those of the second (about £804,000 in circulation) in 1952. Mortgage bonds of the Association to the value of about £160,000 are held in Great Britain.

(e) *Mortgage Joint Stock Bank of Lwów* (Bank Hipoteczny we Lwowie S.A.) is given here, although it is a joint-stock bank, in view of its special mortgage bond operations. It floated bond issues before the War in Austro-Hungary, Great Britain, Holland, and Italy. As these bonds were issued in Austrian kronen, they were later converted into zloty bonds. An issue of dollar mortgage bonds was placed by the Bank in 1927-28 in Austria, Belgium, Holland, Switzerland, and Italy, but a considerable number of the bonds were repurchased by Poland so that the outstanding amount left abroad as on December 31, 1935, was estimated to be in the neighbourhood of 2,500,000 zlotys.

2. FOREIGN LONG-TERM DEBENTURE BOND-ISSUES OF PRIVATE ENTERPRISES

Long-term debenture bond-issues floated abroad have not played an important part so far in the finances of Polish private undertakings. The status of such indebtedness at the end of 1935 came to about 230 million zlotys, of which sum about 190 million zlotys represented the amount borrowed by the enterprises dealt with in the section on Government indebtedness, viz., bonds for the sum of 137 million zlotys issued in France by the Franco-Polish Railway Co., and a batch of bonds for the sum of about 53 million zlotys issued in Sweden by the Polish Telephone Joint-Stock Co.

The remaining bond-issues, for about 40 million zlotys, represent the indebtedness of only nineteen enterprises. Of this sum, at the end of 1935, bonds for the value of about 15 million zlotys were held in Great Britain, about 7 million zlotys in Germany, about 3 million in Holland, and the rest in small batches in various other countries.

3. CREDITS GRANTED TO BANKS

The status of credits granted to Polish banks by banks in other countries in 1929 was 676 million zlotys, and, according to data compiled by the Ministry of Finance, amounted to barely

276·3 million zlotys at the end of 1935. This figure represents credits extended not only to the commercial banks proper (which include four branches of foreign banks) but also the State-owned banks; the share of the latter category is, however, so small that it can be disregarded without any fear of distorting the general picture. On the other hand, movements in the status of the indebtedness of Poland's bank of issue, the Bank of Poland, have not been included, as they represent credit operations virtually only with the central banks of other countries. In this connexion, it will suffice to add that most animated credit relations exist between the Bank of Poland and the Banque de France, and that the highest level of the former's indebtedness was in 1935; nearly the whole amount due was paid off during 1936 and 1937.

The indebtedness of the Polish banks has undergone more reduction since the years of prosperity than any other item in the list of Poland's external debts with the exception of goods credits. The table opposite shows the shares of the various countries which extended such credits and the shifts which took place in this participation. The greatest decrease has been yielded by U.S., Austrian and Dutch credits to Polish banks. According to the most recent data, France now heads the list of countries in this category.

FOREIGN CREDITS TAKEN UP BY BANKS IN POLAND
 (END OF 1929 AND 1935, AND JUNE 30, 1937)
(In Million Zlotys)

<i>Creditor Country</i>		1929	1935	<i>1937</i> <i>(June 30)</i>
Total	..	676	276	199
Austria	..	97	7	4
Belgium	..	39	8	2
Czechoslovakia	..	10	4	4
France	..	99	75	41
Germany	..	116	45	37
Holland	..	40	11	21
Italy	..	3	18	23
Sweden	..	3	3	1
Switzerland	..	38	11	8
United Kingdom	..	136	55	29
U.S.A.	..	65	4	3
Other Countries	..	30	35	26

As already stated, the greatest shrinkage in the volume of these credits took place during the initial stages of the depression

4. CASH CREDITS GRANTED TO INDUSTRIAL AND COMMERCIAL UNDERTAKINGS

The aggregate sum of foreign cash credits secured by private undertakings in Poland is relatively large owing to the fact that in a very great measure it consists of amounts allocated (or lent) by foreign undertakings to their subsidiaries in Poland or to limited liability companies in which the capital of the foreign enterprise has a preponderating interest.

The status of cash credits in Polish private enterprises of all types (but excluding banks) was 1,828 million zlotys at the end of 1929 and 1,153·8 million zlotys in 1935; the preponderance of the cash credits held by the joint-stock companies (911 million zlotys in 1935) indicates that the other types of enterprises had a relatively small share. The table opposite affords data on cash credits extended to private enterprises in Poland according to divisions of industry, etc.

The withdrawal of these credits began much later than was the case with the bank credits; the marked efflux of the former commenced after the trough of the depression was passed. This can be explained by the fact that it is difficult to liquidate cash credits due from industrial enterprises during the most critical years of a depression. Moreover, there can be no doubt that interlocking interests often exist between the lender and the borrower, so that the former does all possible to avoid an excessive reduction of the solvency of the borrowing enterprise during times when earnings are low. Finally, some cash credits were paid off voluntarily by the borrowers as soon as their financial standing had improved (as, for instance was the case with the sugar industry in Poland) and this obviously could only come to pass when the trough of the depression had been left behind.

FOREIGN CASH CREDITS GRANTED TO POLISH PRIVATE ENTERPRISES

(In Million Zlotys)

Divisions of Industry		Number of Enterprises (1935)	Status of Foreign Cash Credits Outstanding on December 31st			SOURCES AND FORMS OF INFLUX
			1929	1933	1935	
Total ..	..	402	1,828·0	1,539·7	1,153·8	
Agriculture and Breeding ..	..	4	—	—	2·8	
Mining ..	..	38	454·5	466·4	334·1	
Of which: Petroleum ..	..	20	262·5	—	173·3	
Founding ..	..	15	337·1	220·1	231·8	
Manufacturing Industries:						
Stone, Glass, and Ceramic ..	..	12	19·1	18·7	18·3	
Metal ..	..	21	33·5	10·6	14·8	
Electrotechnical ..	..	7	115·1	59·0	8·3	
Chemical ..	..	43	126·3	126·0	96·0	
Textile ..	..	63	183·9	174·0	137·8	
Paper ..	..	11	5·0	4·9	2·8	
Leather ..	..	6	10·3	5·6	4·6	
Timber ..	..	26	72·6	79·7	58·1	
Foodstuff ..	..	61	290·7	74·4	63·3	
Of which: Sugar-works ..	..	26	243·8	—	31·4	
Clothing and Haberdashery ..	..	3	1·9	3·8	2·3	
Printing and Allied ..	..	9	2·2	2·5	2·5	
Building ..	..	12	2·9	8·2	10·0	
Gas, Water, and Electricity ..	..	15	116·0	146·9	106·4	
Commodity Trade ..	..	32	25·7	26·8	29·6	
Communication and Transport ..	..	10	14·8	30·2	22·7	
Insurance Companies ..	..	7	4·8	1·5	1·4	
Miscellaneous ..	..	7	11·6	80·4	6·2	

5. GOODS CREDITS GRANTED TO INDUSTRIAL AND COMMERCIAL UNDERTAKINGS

The amount of goods credits outstanding is one of the most difficult items to discern in the volume of foreign indebtedness, and for this reason many countries do not even attempt to estimate such data. The Polish Chief Bureau of Statistics has, however, established a system for effecting such estimations which makes it possible to secure an approximate idea of the shaping of this very important item in the balance of payments, although caution is naturally indicated when making use of the data.

The status of goods credits granted to private enterprises in Poland stood at the relatively high figure of 1,116 million zlotys in 1929; nearly the entirety of these credits were paid off during 1929–1935. Goods credits as an item in Poland's aggregate indebtedness have always been among the first to be withdrawn when economic conditions deteriorate.

6. PARTICIPATION OF FOREIGN CAPITAL IN THE CAPITAL FUNDS OF POLISH PRIVATE UNDERTAKINGS

The participation of foreign capital in the private undertakings of Poland can largely be traced back to pre-War times, but the available statistical data give no exact information on the extent to which this share has grown since the

War, nor do they indicate the relation which existed between the growth in this participation and the simultaneous passage of shares from foreign to Polish hands which must have taken place as a matter of course. In any case the ratio of foreign capital in Polish enterprises increased considerably and did not shrink as was the case with other more direct forms of foreign participation in the economic life of the country, which declined greatly in volume during the recent depression. The aggregate foreign capital invested in Polish enterprises in 1928 was 1,182 million zlotys; this figure rose to the peak sum of 1,754 million zlotys in 1933, after which it began to decrease, dropping sharply in 1936.

This decline when economic conditions had passed the corner can be explained: it is clearly difficult to dispose of stock and shares in time of crisis in a country where stock exchange operations stand at a low level of development; still more important, foreign shareholders of Polish companies are for the most part owners of large, often majority blocks of shares and regard their investments as long-term transactions—they are not liable to change their investments for another type when faced by what they consider to be but a transient change in the situation. In fact, they evince a distinct tendency to enlarge their holdings during depressions and crises (i.e. times of low prices for securities).

Whatever the causes of this state of affairs, evidence is afforded that an influx of foreign capital in this form is a convenient one for a debtor country on more than one score. Such capital is more closely tied up with the economic development of the country, and will not desert it at a time when its loss can cause particularly adverse repercussions on the stability of the currency and on the general dynamics of the economic situation.

Foreign capital in Poland chiefly participates in the joint-stock companies*; it is also to be found in the limited liability companies (not by shares), but is quite insignificant in other forms of undertakings. Of the 1,692 million zlotys invested by foreign capital in Polish enterprises at the end of 1935, 1,466 million zlotys represented joint-stock capital, i.e. 86 per cent of the total foreign capital in all types of enterprises, thus leaving barely 226 million zlotys for the other types.

The table† opposite affords data on aggregate and foreign capital in joint-stock companies in Poland.

* Joint-stock companies in Poland are of the Continental type and in most cases not strictly comparable with those known as such in the United Kingdom; on the Continent they are chiefly larger limited liability companies, limited by shares.

† The data in this table (quoted from the *Concise Stat. Yearbook of Poland*) differ slightly from those in the text and other tables, but are given in view of the lucidity of the material.

POLISH JOINT-STOCK COMPANIES* AND PARTICIPATION OF FOREIGN SHAREHOLDERS (1933-35)

SOURCES AND FORMS OF INFLUX

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Groups of Economic Activity	Years	Total		Companies Possessing Foreign Capital		Foreign Capital as Percentage of Total Own Capital Funds of	
		Own Capital†		Own Capital†		all Joint-Stock Companies	
		Number of Active Companies	Stock Capital Only	Number of Companies	Total	Of which: Foreign‡	Joint-Stock Companies having Foreign Capital
			Million Zlotys		Million Zlotys		
Total, 1933	..	1,130	4,070·1	3,378·8	466	2,897·4	45·4
" 1934	..	1,123	3,926·1	3,360·1	481	2,903·7	47·1
" 1935	..	1,118	3,880·1	3,346·0	446	2,557·3	41·5
Mining§ and Founding	..	38	961·6	844·7	26	815·9	682·7
Petroleum Mining	23	250·3	212·4	17	246·9	217·1
Industries:							
Stone, Glass, Ceramic	68	107·8	99·8	22	62·5	18·4
Metal	..	130	259·2	230·7	49	156·9	81·6
of which: Electrotechnical	30	75·2	71·7	18	58·7	41·5
Chemical	105	298·1	249·6	59	242·0	178·8
Textile	133	519·4	473·7	44	246·6	115·3
Paper	24	90·7	76·4	10	61·5	23·3
Timber	53	43·3	39·3	30	24·1	19·3
Foodstuff	149	403·4	313·8	43	151·8	39·1
of which: Sugar-Works	55	232·3	171·5	16	91·6	13·6
Printing and Allied	35	39·1	33·0	4	2·1	5·9
Building	47	28·9	21·8	15	13·6	5·4
Electricity	20	199·3	182·3	17	191·9	9·0
Commodity Trade	117	75·2	67·0	48	32·6	161·1
Banks, etc.	43	254·0	212·1	15	109·4	20·7
Insurance	16	28·2	22·8	12	24·0	42·6
Communication and Transport	57	250·6	234·2	22	153·6	18·4
Remaining Groups	60	71·0	62·4	13	21·5	11·4

* Companies having their board of management in Poland. † Share capital and reserve funds (sinking funds excluded). ‡ Reserve capital allotted for abroad eliminated from the total reserves proportionately to foreign participation in the stock capital. § Excluding petroleum mining.

NOTE.—The participation of foreign capital in the founding and textile industries decreased greatly in 1936-37 owing to several very important companies being acquired by Polish interests. Foreign capital in the mining and founding industry in 1937 is estimated at 300 million zlotys.

Data on the participation of foreign capital in the various groups of limited liability and other companies (not by shares) as on December 31, 1935, is given below.

FOREIGN CAPITAL IN LIMITED LIABILITY AND OTHER COMPANIES (NOT BY SHARES) IN POLAND (JOINT-STOCK COMPANIES EXCLUDED)

<i>Divisions</i>	<i>Number of Enterprises</i>	<i>Aggregate Capital (in Million Zlotys)</i>	<i>Foreign Capital (in Million Zlotys)</i>	<i>Per cent of Foreign Capital</i>
Total ..	89	252·4	226·4	89·7
Mining ..	12	152·5	137·7	90·3
Of which:				
Petroleum ..	6	26·2	24·4	93·1
Stone, Glass, and Ceramic ..	3	3·9	2·9	74·4
Chemical ..	11	49·4	43·1	87·2
Building ..	7	1·7	1·2	70·6
Gas, Water, and Electricity ..	3	30·5	30·4	99·7
Commodity Trade ..	21	8·1	6·6	81·5
Miscellaneous ..	32	6·3	4·5	71·4

In view of the importance of the banking system in economic life, detailed, though somewhat obsolete, data are given below for the participation of foreign capital in the Polish banks. Thus, the share of foreign capital by nationalities in the capital sums of the banks as on December 31, 1931, was:

	<i>Number of Banks</i>	<i>Million Zlotys</i>	<i>Per cent of total Capital of Banks</i>	<i>Per cent of own Foreign Capital</i>
Total own funds..	51	265·4	100·0	—
Including funds of foreign origin ..	26	76·1	28·7	100·0
Of which: capital originating from				
Austria	5	13·0	4·8	17·0
Sweden	1	12·5	4·7	16·4
France	3	12·1	4·6	15·9
United Kingdom	6	11·3	4·3	14·8
Germany	7	10·8	4·1	14·2
Belgium	4	6·4	2·4	8·4
Italy	1	2·5	1·0	3·3
United States ..	2	2·4	0·9	3·2
Czechoslovakia ..	3	1·9	0·7	2·5
Hungary	1	1·4	0·5	2·0
Switzerland	2	1·1	0·4	1·4
Holland	2	0·7	0·3	0·9
Poland (domestic)	45	189·3	71·3	—

The above data on foreign capital in Polish joint-stock companies indicate that this capital has a tendency to appear in enterprises where it can possess a majority interest; it likewise tends to concentrate in certain divisions of production. The largest sums of foreign capital are invested in the mines and foundries, then in the chemical and electrical industries, that is to say in those divisions of economy where the participation of such capital is highest (from 60 to 87 per cent). In measure, as this participation decreases in the several divisions, the size of the capital invested in these shrinks.

Out of the total number of 1,118 joint-stock companies (industrial and commercial) foreign capital participated in 446 of them.

The concentration of foreign capital is characterized by the data showing the relation of foreign to domestic capital. The participation of foreign capital exceeds 50 per cent of the total capital (1,402 million zlotys as against 1,772 million zlotys) in 290 large joint-stock companies. In 141 companies this share is between 25 and 50 per cent, and amounts to a total of 269 million zlotys. In the remaining 15 companies of the above-mentioned 446 companies, the share of foreign capital is less than 25 per cent, and represents the sum of 42 million zlotys.

The entirety of the material quoted above indicates the undoubted fact that foreign capital has a prominent part in the private economy of Poland. The very fact that this form of capital constitutes on the average 38·4 per cent* of the total capital of the Polish joint-stock companies speaks for itself. It does not follow from this that Poland is exceptionally favoured by foreign capital as a field for investment. The high percentage share of this capital in the Polish joint-stock companies should rather be regarded as symptomatic of the general feeble development of the joint-stock system in Poland.

* Data at the end of 1936.

The total capital invested in the joint-stock companies in Poland is quite small compared to the corresponding figure in other countries. This can be clearly seen in a comparison of the aggregate capital of joint-stock companies in Poland with the data for other European countries. Thus the aggregate capital of joint-stock companies in Poland is barely 7 per cent of the figure for Germany, about 20 per cent of the Italian and about 3 per cent of the British figure. The causes of this weakness in the development of the joint-stock company system in Poland are the same as those for the insufficient capitalization of the country as a whole. The low level of joint-stock capital in Poland is, moreover, further explained by the fact that the monied classes of the country have, following the dictates of tradition, preferred to invest their capital primarily in land, and as a second resort in urban real-estate and in mortgages. This is one of the reasons (over and above the general shortage of capital) why numerous branches of industry were established in pre-War times by foreign capitalists, and this further explains why the participation of foreign capital in the joint-stock companies of Poland remains to this day so considerable.

It should be also borne in mind that, in spite of the great progress made by Poland during the past ten years, it is still a preponderatingly

agricultural country, and that handicrafts and small-scale industry (in which foreign capital naturally takes no part), in a great measure employing home workers, play an enormous rôle. There were 234,697 industrial establishments in Poland in 1936 (according to the number of industrial licences issued by the authorities), and of these no fewer than 207,969 employed from one to four workpeople only, including proprietors and working members of the family. The aggregate figure of actively engaged workpeople and home-workers was returned at about 2,800,000 persons by the General Census of 1931. Between 530,000 and 850,000 persons (depending on seasonal and business conditions) were engaged in the mining, founding, and in the manufacturing industries, and on public works. These data serve to demonstrate, even if we include communication, trade and other domains of economic effort, how great is the number of workers employed in small-scale industry and in the handicrafts. Foreign capital has an assured and important position in the field of the large- and medium-scale industries of the country; but its rôle in industry as a whole is not so great as its share in the limited companies seems to indicate.

The percentage share of foreign capital of different countries in the total foreign capital invested in the joint stock capital of industry

and trade (excluding banks and insurance companies) is given in the following table:

Nationality of Capital	Jan. I, 1931 Per cent	Jan. I, 1933 Per cent	Jan. I, 1935 Per cent	Jan. I, 1936 Per cent	Jan. I, 1937 Per cent
Total	.. 100·0	100·0	100·0	100·0	100·0
French	.. 25·8	24·4	25·6	24·4	27·1
United States	21·3	21·9	21·9	21·9	19·2
German	.. 25·0	23·4	19·8	19·3	13·8
Belgian	.. 9·4	10·0	10·5	11·0	12·5
Swiss	.. 2·8	2·8	4·8	4·5	7·2
British	.. 4·8	5·9	4·7	5·1	5·5
Austrian	.. 3·9	3·5	3·4	3·4	3·5
Dutch	.. 1·8	2·8	2·9	3·1	3·5
Swedish	.. 2·0	2·3	2·3	2·4	2·7
Czechoslovak	1·1	1·3	1·4	1·4	1·6
Other countries	2·1	1·7	2·7	3·5	3·4

The above figures show that the share of German capital decreased sharply in 1936, in which year several of the largest industrial companies in Upper Silesia were taken over by Polish interests. The "mining and founding" item in the table on page 145 comes to about 48 per cent at present.

The rôle of foreign capital originating from the various countries is not a uniform one; it can be characterized as follows. German and Austrian capital restricts its activities almost exclusively to financing enterprises which belonged to it before the War, and which are located upon Polish soil once held by Germany and Austria. German capital, under the pressure of events connected with the World War,

withdrew entirely from the central provinces of Poland, whilst in other parts of that country its participation has been much weakened, mainly as a result of the financial and economic perturbations in the Reich, which prevented the expansion of German capital in other countries, and hence also in Poland.

French capital is to be found mainly in the mining and founding, petroleum, textile, and electrical industries of Poland. These investments of French capital were made before the War, and it is of interest to note that out of the many milliards of francs invested by France on the territories of the former Russian Empire, the only important capital saved was that invested in Poland. The French for the most part have preferred to extend the large enterprises already owned by them and hence occupy first place amongst foreign investors in Polish enterprises; the capital engaged by them in new private undertakings (excluding the petroleum industry and the important railway company already mentioned) is not very large. In Upper Silesia French capital has engaged in an important colliery (Skarboferm) in partnership with the Polish Government.

American capital in Poland is concentrated in a few big petroleum and zinc mining enterprises, and to a much smaller extent in the textile and metal industries; for some time past

there has been no tendency for an increased share in this respect.

Italian capital, mainly through the Banca Commerciale Italiana, after the War financed some branches of industry, particularly the Łódź textile industry and banks, but has partially withdrawn its capital lately owing to political and economic developments in Italy. Its share (as also that of Swiss capital) in insurance companies in Poland, however, continues to be an important one.

Considerable initiative has been shown since 1918 by British and Belgian capital, which participated in the organization and foundation of a number of new banking, electrification, chemical, and iron and steel undertakings after the World War. British capital invested £3,582,000 in the electrification of Poland during the period 1923–36. British capital has also been very active in the insurance, transport, chemical, and sugar industries.

Swedish and Dutch capital have shown some initiative in Poland in the fields of the manufacturing industries in which they specialize, pre-eminently in the electro-technical industry.

For technical reasons it is impossible statistically to compute the profitability or yield of foreign capital. It varies, of course, according to changing conditions in the various branches of industry, and upon the type of undertakings.

The yield has naturally decreased during the years of the world-wide depression, but many of the larger enterprises, based upon the solid foundation of their foreign capital, have successfully weathered the most difficult period and are beginning to take advantage of the recovery in business conditions which, since 1934, has been making itself felt in the shape of enhanced sales of all forms of manufactures and in the larger turnovers of the financial, banking, and insurance enterprises.

7. CAPITAL AND CREDITS OF BRANCHES OF FOREIGN ENTERPRISES OPERATING IN POLAND

At the end of 1935 there were forty-six branches of foreign enterprises in Poland, of which four were engaged in banking and seven were insurance companies. The allotted capital of this group of undertakings as a whole amounted to 154·7 million zlotys, whilst the aggregate sum of goods and cash credits granted by their main offices amounted to 108·5 million zlotys.* More than nine-tenths of the foreign

* There is really no fundamental difference between the allotted capital funds of branches of foreign enterprises and the credits granted to them by main offices, in view of the specific ties between the two organizations. The endowment of branches with capital in one form or another is often in no connexion with the actual need but is based on current and special problems of inter-concern relations. There are quite a number of foreign branches in Poland with very small capital but whose goods credits are many score times larger than their allotted funds.

BRANCHES OF FOREIGN JOINT-STOCK COMPANIES OPERATING IN POLAND* (1933-35)

Years	Groups of Economic Activity	Number of Active Companies	<i>Funds Allotted for Operations in Poland, in Million Zlotys</i>			Credits† from Main Offices Abroad
			Total	Share Capital	Reserve Funds	
Total, 1933	..	46	322·9	157·0	49·9	116·0
" 1934	..	46	311·6	155·5	37·1	119·0
" 1935	..	46	301·2	154·7	38·0	108·5
Mining‡ and Founding	..	7	101·5	51·5	23·8	26·2
Petroleum Mining	..	1	0·6	0·6	—	—
Industry	16	131·1	58·0	13·5	59·6
of which: Metal	..	4	12·8	9·8	1·3	1·7
Chemical	..	5	8·6	7·7	0·2	0·7
Textile	5	104·4	38·0	12·0	54·4
Commodity Trade	..	4	19·9	0·6	0·2	19·1
Finance and Credit	..	4	8·6	8·6	0·0	—
Insurance	..	7	7·3	6·8	0·5	—
Other Groups	..	7	32·2	28·6	—	3·6

* Companies whose board of management is not in Poland. † Cash and goods, but excluding bank credits.

‡ Excluding petroleum mining.

branch establishments in Poland are engaged in industry and trade, and the most important enterprises in this category are in the textile industry (104·4 million zlotys), in mining and founding (about 100 million zlotys).

The table on page 155 affords data on the allotted capital funds and credits of foreign joint-stock company branches operating in Poland.

The capital invested in Poland by the foundation of branches of foreign enterprises has undergone only slight fluctuations during the last five or six years.

The data on the countries from which the capital of the foreign branches originate refer to the end of 1932. None the less, in view of the naturally slow shifts which can only take place in this domain, the available material should still fairly faithfully depict the present state of affairs.

ALLOTTED FUNDS OF FOREIGN BRANCHES IN POLAND,
ACCORDING TO COUNTRIES OF ORIGIN (1932)

<i>Countries</i>			<i>Percentages</i>
Austria	..	..	2·4
Belgium	..	..	5·6
Czechoslovakia	..	..	0·8
France	..	..	68·5
Germany	..	..	8·0
United Kingdom	..	..	1·5
United States	..	..	10·3
Other Countries	..	..	2·9

The Polish branches of foreign enterprises

likewise receive credits from abroad, which are not granted by their main offices direct but by financial institutions and other undertakings. The aggregate of such credits at the end of 1935 amounted to 49·2 million zlotys, which is less than 20 per cent of the total sum granted by the main offices.

* * *

It clearly follows from this review of all these heterogeneous sources of influx and forms of foreign capital which entered Poland, that the aggregate sum thus received was of moderate volume. The burden of indebtedness assumed in this connexion by Poland is now much smaller than it was originally in view of the currency depreciation in many of the creditor countries and, above all, owing to the important sums redeemed by Poland. Further, it has been established that the great majority of the borrowed capital was utilized for the satisfaction of the most essential needs of the State and of private economy; it therefore undoubtedly contributed to a considerable strengthening of the country. For all these reasons, the consequences of the depression were much less serious for the creditors of Poland than was the case in other debtor countries; this feature will be examined more closely in Chapter III.

CHAPTER III

GENERAL CONDITIONS FOR FOREIGN CAPITAL IN POLAND

BEFORE every decision to invest money in another country the capitalist asks the natural question: Will my money be safe, and will it give me a proper yield? In order to be in a position to answer both parts of this question, he must ascertain whether the political situation of the country (both in the sphere of home and of foreign politics) is such as to assure the safety of his capital, and whether it offers prospects of a satisfactory yield.

Let us therefore examine the general outlines of the conditions which foreign capital finds in Poland from the point of view of:

- (a) the external political situation of the Republic of Poland;
- (b) the internal, social conditions of the country;
- (c) the economic system;
- (d) the governmental policy towards foreign capital, and
- (e) Poland's paying ability.

A. EXTERNAL POLITICAL SITUATION

The still fresh memory of the century-and-a-half gap in Poland's independent existence as

a nation caused (during the first few years of her restoration) a fairly widespread lack of confidence in the permanency of her post-War status. This in turn evoked the doubt whether the investment of capital in Poland was not involved with greater risks than in other countries. Thus, apart from the ordinary economic risk, capitalists, as regards Poland, also took into consideration what they took to be an abnormally great political risk; they tried to foresee the possible consequences of wars in which Poland might become entangled, and even—under the influence of a specific propaganda of the idea that Poland was only a “seasonal State”—the risk of her again losing her independence.

To-day, however, after the lapse of nineteen years since Poland regained her independence, expressions of opinions raising such doubts are becoming weak and rare in the face of the steadily consolidating power of the Polish Republic. None the less, it is not considered advisable to ignore such opinions, but, on the contrary, it would perhaps serve a useful purpose to analyse the point objectively and impartially, namely: Is there a possibility of an abnormally great political risk arising for capital engaged in Poland?

The answer to this query is quite plain. The risk is neither greater nor smaller than that inherent in the situation of any other great Power in Europe.

In order to appreciate the position, it is necessary to bear in mind that the Polish State has much older traditions behind it than the majority of the other countries of Europe; that it lasted as a consolidated and coherent political entity from the tenth century to the end of the eighteenth century; that it existed at a time when the majority of the other countries of Europe (including Austria, Bulgaria, Czechoslovakia, Finland, Greece, Italy, Yugoslavia, Switzerland, Turkey, etc.) either did not yet exist, or were passing through the turmoil and confusion of profound upheavals for much longer periods of time than the duration of Poland's loss of independence.

The loss of its independence by a State possessed of a powerful national individuality has been an exceedingly rare event in the annals of the history of the world, and when it does happen it is the outcome of quite exceptional circumstances. The loss of Poland's independence was the outcome of such exceptional circumstances, such as the weakening of her military strength during the eighteenth century (chiefly due to the over-democratic structure of Poland at that epoch being unsuitable under the conditions then reigning on the Continent). This, too, happened at a time when all the three neighbouring empires remained under absolute rule and attained great military power; this

power they utilized for the seizure of Polish territories, unhindered by the other countries of Europe which remained passive spectators of the crime.

In the case of Poland, history cannot repeat itself. The re-appearance of a similar set of circumstances is unthinkable. One of the participants in the partitioning of Poland, the Austro-Hungarian Monarchy, is no more, and has been replaced by a number of small States, amongst whom are to be found traditional and tried friends of Poland. Any aggression undertaken against Poland by Germany and Russia jointly with the other countries of Europe maintaining a passive attitude is out of the question in view of the acute conflict between the interests and tendencies of these two neighbours of Poland, and in view of the interdependence of interests of all the Powers of Europe. For that matter, as the history of the nineteenth century has shown in its records of Poland's successive insurrectionary wars, the country is neither an easy nor a convenient object for conquest, and offers little attraction in this respect. It is, however, superfluous to amass further proof since the loss of Poland's independence is not even to be thought of if only for the reason that the Polish nation, conscious of the causes of its downfall in the past, has since the restoration of its independence devoted a great part of its

power and energy to the consistent organization of the army in a manner which fully assures the integrity of its territories. Naturally, political risks have always existed, and they still continue to exist in our time. The new Poland with her determined policy of peace is undoubtedly in the same position as any other European Power, and hence the political risk for foreign capital in Poland is not greater than in any other part of the Continent.

B. INTERNAL POLITICAL AND SOCIAL RELATIONS

It is obvious that the safety and profitableness of capital in any country depends to a large extent upon its structure and internal political relations. The internal structure of Poland is similar to that of the democracies of Western Europe, and is based upon the principle of the division of authority under three heads: legislative, juridical, and executive; in addition, the Constitution of 1935 safeguards the stability of government in case of ill-considered and hasty decisions on the part of the legislative chambers.

In accordance with the principles established by Marshal Piłsudski, the Government of Poland steers a middle course between the two extremes of Right and Left. Moreover, the history of Poland proves that internal antagonisms, whether social or religious, have never led to

any long, acute or violent conflicts, to dangerous revolutions or civil wars, as happened in the majority of the other countries of Europe, not excluding England, France, Germany, and Italy. The shaping of social relations in the new Poland has been such that conflicts of interests or opinions (which naturally exist there as in other countries) can never create such a condition that the economic system of the Republic would thereby be endangered. In particular, the Communist movement in Poland is exceedingly weak, and has in fact never been marked by much vitality.

Thus from the point of view of the internal consolidation of the Republic, the possibilities for foreign capital in Poland are by no means worse than those presented by any other country in Western Europe.

C. POLAND'S PRINCIPLES OF ECONOMIC POLICY

The safety and satisfactory yield of capital invested in a country depends in the first instance upon the economic system adopted by that country.

Ever since she regained her freedom, Poland has adopted and followed the principles of capitalist economy.

All the successive Governments of the country have based their economic policy upon the

principle of currency stability maintained since 1926; whilst the principle of budgetary equilibrium could not be fully maintained during the economic crisis, from 1936 there has again been a marked trend fully to realize such equilibrium.

The successive Administrations of Poland have consistently and uniformly recognized the principle of free initiative of private economy in the domains of agriculture, industry, and trade, intervening only on occasions when it appeared essential in the higher interests of the country, such as the maintenance of peaceful social relations, combating increases in the cost of living, countering unemployment, or when the tasks to be undertaken surpassed the possibilities of private initiative, viz. the construction of the Port of Gdynia, railway construction, etc.

An essential feature of the economic policy of successive Polish Governments has always been a due care for the creation of sound bases for the rise of prosperity and of the cultural level of the whole population, accompanied by the avoidance of experiments which have not passed the test of life and actual practice elsewhere.

Representative and competent Polish statesmen and political leaders have on many occasions declared that the more initiative private capital shows in the production of commodities necessary for the satisfaction of the material needs

of the State and of the community, and the more strictly it respects the juridical and legal codes of the country (similar to the legislation generally accepted in the democratic countries of Western Europe), the less will the authorities interfere directly with the economic activities of the people. The Government would then be in a position to restrict its activities within proper limits, embracing the maintenance of law and order, the administration of justice, the spreading of education and enlightenment, and collaboration in all those works undertaken for the common weal which lie beyond the scope and possibilities of private initiative.

Foreign capital in Poland enjoys in full equal rights with domestic capital. There is only one restriction: that corporate bodies and legal persons, when acquiring real estate, must secure a permit, issued by the Minister of the Interior on the advice of the Minister of War (in accordance with the law of March 24, 1920, *Journ. of Laws of the Rep. of Poland*, No. 24, item 202, 1933). As in other countries, foreign companies (whether joint-stock, limited liability, or limited by shares) must obtain the permission of the Minister of Industry and Commerce before they can commence operations. Such permission is usually granted without any difficulties, on condition, however, that a fixed capital be allocated for operations in Poland, and that

reciprocal treatment is afforded to Polish companies in the countries of registration of those companies seeking to legalize their activities in Poland. Additional permission must be secured for the issue of bonds and for changes in the capital allocated for operations in Poland.

D. TAX EXEMPTION AND PRIVILEGES FOR FOREIGN CAPITAL

Enterprises belonging to foreigners enjoy, as regards taxation, the same status as those of domestic capital.

The principal direct taxes levied on economic activities in Poland are the Industrial Turnover Tax, the Income Tax, the Land Tax, and the Real Estate Tax.

Polish legislation envisages the granting of various exemptions and reliefs in the levying of taxation on the basis of the law of March 22, 1928 (*Journ. of Laws of the Rep. of Poland*, No. 36, item 329), and the decree of June 1, 1927 (*Journ. of Laws of the Rep. of Poland*, No. 51, item 452), the decree of the President of the Republic dated November 25, 1936 (*Journal of Laws of the Rep. of Poland*, No. 88, item 614), in cases dealing with the establishment of new enterprises in the Port of Gdynia and in certain other parts of Poland, as also with the construction of new dwelling-houses (*Journ. of Laws of the Rep. of Poland*, No. 55,

/ item 494, 1934), that is to say, whenever, for reasons of the common weal, it appears particularly desirable to encourage capital to make certain specified investments. A condition for the granting of such tax exemption or relief is that the production or activity be recognized as desirable in the interests of the State, or that obligations will be accepted to effect capital outlays in the country, or that certain obligations imposed by the Government are accepted.

The tax exemptions and reliefs in question are:

- (1) exemption from Stamp Fees when registering joint-stock companies;
- (2) exemption from Industrial Turnover Tax and from local government supplementary levies;
- (3) exemption from State and local government fees on alienations and leaseholds;
- (4) exemption of newly-constructed buildings from the Real Estate Tax for a period of twenty-five years;
- (5) right to dispossession;
- (6) right of priority of purchase of land under the Land Reform Scheme;
- (7) right of priority of purchase of building materials, ores, minerals, and timber from State-owned estates and lands;
- (8) right of priority in securing permits for the utilization of water power for the production of hydraulic energy.

In addition, in some parts of the country exemption is granted from all direct taxation, whether levied by the State or by local governments, with the exception of municipal supplementary imposts to the Land Tax. Such exemptions are granted for a period of from ten to fifteen years.

The annual revenues assessed for Income Tax are reduced by the amount expended on the building of dwelling-houses by the legal or corporate entities which bear such expenditure.

In cases deserving exceptional treatment because of the investment of large sums of foreign capital in the country, the Government has extended special statutory exemptions and tax reliefs, as with the exceptional law of April 30, 1926, on the development of the zinc industry.

All the above-mentioned relief measures, as also those mentioned on other pages herein in respect of electrification, motorization and navigation privileges (*Journ. of Laws of the Rep. of Poland*, No. 125, item 891, 1925) and analogously in respect of petroleum prospecting and boring (*Journ. of Laws of the Rep. of Poland*, No. 102, item 885, 1927) will be supplanted by a special general law to be enacted in 1938. The measures in force hitherto for the development of Gdynia and of navigation will remain in force. In addition, special privileges and relief

measures will be applied to capital invested upon the new Central Industrial Zone now in course of organization in the midland part of the country.

In order to improve the prospects of securing a proper yield for capital, the Government is planning to revise the legal norms affecting social welfare contributions and obligations, as also to reform the Income Tax system especially in its application to joint-stock and limited liability companies. The Turnover Tax was amended by the gradual reduction of the rates applied (Law of December 19, 1931, *Journ. of Laws of the Rep. of Poland*, No. 112, item 881). Another step in this direction is the bill presented to the legislative chambers this year whereby income derived from the dividends yielded by joint-stock and limited liability companies will be exempt from Income Tax, and only the tax payable by the companies themselves will be levied.

All the Polish foreign public loan issues and the majority of the foreign loans granted to Polish State institutions are exempt from all State taxes on the strength of special laws.

The Polish Government expects foreign capital operating in the country to be non-political, and loyally to carry out all its obligations in respect of taxation; it demands that such capital refrain from evading the

payment of taxation as unfortunately happened in several instances. The Polish Government opposes such methods on the part of foreign capital just as if Polish capital were applying them.

Foreign enterprises observing the laws of the country—and fortunately there have been very few cases of disloyalty—can confidently expect friendly and helpful co-operation on the part of the authorities, for the Administration is fully aware of the importance of encouraging foreign capital to invest in the country, and thus of accelerating Poland's economic development.

E. POLAND'S PAYING ABILITY

Is Poland in a position to cope with her obligations in respect of foreign indebtedness? If the lessons of the past can yield any indications for the future, as far as capital lent to Poland is concerned, it is possible to give a positive reply: Poland is a debtor country which, during the most difficult years of a depression unprecedented in the annals of capitalism, directed all her economic policies towards the honouring of her foreign obligations; in spite of the great sacrifices which such policies entailed, she met these obligations strictly and relatively longest, for she did so until 1936.

But apart from the realization of the praiseworthy past and good faith of the debtor there is another question which undoubtedly must

arise in this connexion, namely, the ability of a debtor in meeting his obligations. This question naturally arises during a period in which such great upheavals have taken place in the domain of prices, foreign trade, international movements of capital, and in the internal economic structure of the various countries. The application of universal measures of self-sufficiency and the isolation of debtor countries from the influx of new credits have evoked a situation which in many respects differs radically from that which preceded the last great crisis.

It is for this reason that prophecies of a general nature, based upon the mere fact of obligations having been uniformly honoured in the past, are believed to be insufficient and hardly convincing enough. It is also necessary to analyse what concrete possibilities there are for the redemption of the various foreign obligations dealt with in Chapter II—to examine the burdens arising out of each category of indebtedness in relation to the assets or income of each class of debtor.

In every examination of the solvency of a given country as regards its foreign indebtedness, two problems call for solution. One is: Are the various debtors (or categories of debtors) in a position to operate their economy in such fashion as to produce the sums payable? The

second question which arises is: Has the country as a whole the possibility of transferring the requisite sums to the creditor lands in gold or in other media of foreign exchange once the individual debtors have supplied the necessary funds?

In the first problem, it is important to know the liquidity marking the debtor's resources and the profitableness of the enterprise conducted by him; in cases where the indebtedness has been incurred by the State or by some public body, the structure of the budget is of paramount significance. As regards the second problem, the matter depends on the shaping of the balance of payments of the given country, and possibly on the extent of its reserves of gold and foreign exchanges.

I. SOLVENCY

I. NATIONAL WEALTH AND INCOME

Before undertaking an investigation of the specific factors affecting the solvency of the various debtor-groups in Poland, attention will be devoted to some more general features which possess great indirect importance.

We must first of all examine the national wealth and income of Poland. Estimates of national wealth can be most diverse (relative nature of estimated value of items difficult to dispose of, different appraisals of value according

to the basis accepted, such as the chosen interest for capitalizing yield, fluctuations in prices during the post-War period, etc.). Of all the works and studies dealing with the computation of the national wealth of the country, those covering the period 1926–27 have been generally accepted as the most thorough and reliable*: according to them, the national wealth of Poland was then approximately 137,500 million zlotys (including 66,900 million zlotys, or 47 per cent, as the value of agricultural property, and 43,000 million zlotys, or 30 per cent, as that of industrial property). The calculations were effected on the basis of the price-levels at that time, which were higher than those now current, but it should also be borne in mind that since then many important investment works have been executed in Poland which have greatly enhanced the value of the national wealth estimated at a time of relative prosperity.

Accepting the above-mentioned calculations of the value of the national wealth of the country (137,500 million zlotys), the aggregate sum of the whole foreign indebtedness of Poland of all descriptions was only a very small percentage of the total national wealth.

It would be of interest to examine the data relating to the national income of Poland,

* Dederko, B.: *Majgtek narodowy) Polski Poland's National Wealth*, Warsaw, 1930.

although here, too, only approximate estimates are available, and unavoidable inaccuracies certainly exist. This income was estimated at 28,000 million zlotys for the year 1929, the last year of relative prosperity before the crisis set in. The figure has naturally declined during subsequent years, all the more so as Poland's national income depends in a great measure upon the yield of agriculture, which plays the most important part in the country's economy, and which has been so severely hit by the great depression.

The national income for 1935 has been estimated at the nominal sum of 15,500 million zlotys, which might appear to indicate a very great shrinkage compared with 1929. But a large part of the decline merely expresses the lower levels of prices, and if the nominal national income for 1935 were computed with the elimination of price changes, the actual decrease would be in the neighbourhood of about 20 per cent. In other words, in terms of zlotys having the buying power of 1929, the national income for 1935 amounted to approximately 23,000 million zlotys.

2. PROPERTY OF THE STATE

We shall now pass to an examination of the various categories of debtors; the first will be Government indebtedness, with special refer-

ence to the ratio between State property and revenues and this indebtedness.

Apart from a great number of buildings belonging to the State, and essential for the housing of the Administration and for the needs of the Army, the property of the State also includes the following important items, which must be taken into consideration:

(1) Forests covering an area of over 7,400,000 acres, with a volume of timber of about 8,000 million cubic feet, and an annual accrescence of about 190 million cubic feet;

(2) Railway lines aggregating about 13,000 miles of track;

(3) The State telegraph system and a considerable part of the telephone system, apart from wireless stations;

(4) Spas at Busk, Ciechocinek, Druskienniki, Krynica, and Szkło;

(5) Industrial enterprises, *inter alia*:

(a) the Brzeszcze colliery, and a number of coal-mining rights in south-west Poland;

(b) participation in a number of large collieries in Polish Upper Silesia;

(c) the Strzybnica lead and silver foundries in Polish Upper Silesia;

(d) the "Polmin" petroleum refinery at Drohobycz, the largest of its kind in Europe, and the State Mining Enterprise at Jaslo;

- (e) two large modern factories at Chorzów and Mościce for the manufacture of nitrates and ammonia;
- (6) Two State-owned banks, the National Economic Bank (capital 150 million zloyts and Treasury deposits of about 700 million zlotys), and the State Land Bank (capital 100 million zlotys);
- (7) Shares in a number of industrial undertakings of general public and State utility, either in direct or in indirect form, through the intermediary of the National Economic Bank, such as the Starachowice Mining and Foundry Works Joint-Stock Co., the Peace Foundry Works, the Wspólnota Interesów combine, a very large coal-mining and founding concern, and many others;
- (8) A number of Government-owned factories supplying the needs of the Military Administration in the field of armaments (artillery, ammunition, explosives, aviation, technical equipment, uniforms, etc.);
- (9) Fully equipped mints and printing works producing banknotes and securities, covering the needs of the Ministry of Finance and of the Ministry of Posts and Telegraphs.

Finally, there are branches of activity reserved to the State, such as the Tobacco, Salt, Spirits, Match, and Lottery monopolies, which own important assets, and which yield to the State an annual revenue of about 650 million zlotys.

3. SOLVENCY OF VARIOUS GROUPS OF DEBTORS

(a) *Government Indebtedness*

For obvious reasons, the most precise data on the possibilities of honouring foreign indebtedness are those in respect of the obligations of the State. During the period 1929–35, the Republic of Poland paid off about 750 million zlotys in respect of capital items, and 900 millions as interest on State indebtedness (see pp. 184–86). It may be accepted that the paying ability of every country is best demonstrated by an examination of the proportion of State expenditure allotted to the service (amortisation and interest payments) of its National Debt. The Polish budget for the fiscal year 1937–38 provides the sum of about 221 million zlotys for the service of the whole internal and external debt of the State. This sum is equivalent to 9·6 per cent of the total budgetary expenditure (1937–38) as against 31 per cent in the case of Italy, 28 per cent in that of Great Britain, 15 per cent in Czechoslovakia, and 30 per cent of the total budgetary disbursements of France. The budget of Poland is in fact, particularly now after the conversion of the loan issues, burdened to a much smaller degree with the service of State indebtedness than the budget of any other large country in Europe. For this reason, the ability of the Polish Government to maintain the service of its indebtedness need arouse

no doubt, all the more so as the majority of the Government loans are guaranteed (cf. data given in list of Government indebtedness in Chapter II) by revenues or property, the value of which exceeds the sums necessary for the service of indebtedness many times over.

(b) *National Economic Bank*

The foreign indebtedness of the National Economic Bank is based upon the Bank's mortgage-bond issues placed abroad, and amounts to about 7 per cent of the aggregate indebtedness of the Bank, whose assets amount to well over 2,500 million zlotys.

The above-mentioned operations of the Bank are of very moderate volume considering the total assets of that institution, and have had no appreciable influence upon the aggregate foreign indebtedness of Poland.

(c) *Goods Credits*

The payment of obligations arising out of goods credits is covered by the appropriate sums included in the budgets of the various State institutions which had accepted such credits with the approval of the Government. Such payments are, moreover, effected mainly from economies or profits which the investment works or installations yield during operation. The service of interest and sinking fund payments for

such foreign credits in 1936 required only 3 per cent of the budget of the Polish State Railways, and about 2·2 per cent of the budgetary estimates of expenditure of the Ministry of Posts and Telegraphs for the year 1936–37.

(d) *Silesia-Baltic Railway Bonds*

The obligation of the State arising out of the guarantee given for interest on the bonds of the Silesia-Baltic Railway does not burden the State budget, since the sums necessary for this service were already covered during the first year by the receipts yielded by the operation of the new line.

(e) *Municipal and Local Government Boards*

The service of the interest and sinking fund payments in connexion with all the loan indebtedness of the Silesian Treasury required 1,499,000 zlotys in 1935–36; as the total expenditure of the Autonomous Treasury of Silesia in 1935–36 amounted to 67,662,000 zlotys, and including disbursements on investment works 77,805,000 zlotys, the service of the debt accounted for barely 1·9–2·2 per cent of the budgetary expenditure.

The service of the City of Warsaw's whole indebtedness requires 22·4 million zlotys per annum; the total budgetary expenditure of the city amounts to 253 million zlotys, and thus

the service of the debt (after deducting repatriated bonds) represents 8·8 per cent of the budgetary disbursements in 1937-38.

The external indebtedness of the local government boards at the end of 1935 amounted to about 180 million zlotys. The aggregate indebtedness according to the official statistics came to about 1,000 million zlotys at the end of the operating year 1935-36.

The service of this indebtedness requires a relatively small amount compared with the total budgetary expenditure of the boards. According to final statements of account for the year 1935-36, the combined ordinary and extraordinary expenditure of the local government boards aggregated 673·1 million zlotys. The actual transfer during 1935 in respect of amortisation and interest sums due to other countries amounted to 12·2 million zlotys, and the total service of internal and external indebtedness, according to final statements of budgetary disbursements in 1935-36, came to 70 million zlotys, or about 10 per cent of the aggregate expenditure.

(f) *Private Long-term Mortgage Credit Institutions*

The foreign indebtedness of long-term mortgage credit institutions in Poland totals about 65 million zlotys. At the same time, the aggregate

bond issues of these institutions amount to approximately 730 million zlotys. In spite of this rather considerable sum there has been no case of any of these institutions failing to meet their obligations, even during periods of prolonged crisis. The reason for this is that the loans are granted with much caution and at a low ratio to the value of the real estate according to norms strictly fixed by statute and ratified by the Government authorities.

(g) *Private Debtors*

Private credits are composed of a great number of individual items, and the certainty of their being paid off depends in Poland, as in other countries, upon proper discrimination with regard to prospective debtors: in Poland private debtors do not on the whole give more ground for complaint than in the rest of the world. Mention has already been made of the fact that during the three years which marked the trough of the depression, a very great part of the foreign indebtedness of Polish private enterprises was paid off. This would appear to furnish satisfactory evidence of the reliability of private debtors in Poland. But a closer analysis of the general figures yields still more striking conclusions. As already stated (page 142), outstanding goods credits granted to Polish undertakings declined to such an extent that it can

be affirmed that indebtedness of this type was virtually paid off; over 60 per cent of the bank credits were duly paid off, whilst the sums outstanding with the banks and industrial undertakings represent mainly credits granted to the institutions in question by foreign concerns, which themselves own the various Polish enterprises receiving such credit. Those foreign creditors who granted credits to individual debtors with a proper measure of caution and prudence, have had every opportunity and possibility of recovering the amounts due to them.

Another indication serving to demonstrate the reliability of the Polish debtors is afforded by the fact that during the depression relatively very large sums (dealt with on other pages herein) were transferred as interest payments and dividends to foreign capitalists by Polish debtors.

The yield received by capital invested in private economy is in strict and close dependence upon general business conditions both in Poland and on the international markets. Undoubtedly, the capital of joint-stock companies (in which foreign capital has mainly invested) suffered during the depression. There are aggregate data, but the lack of special statistics on the yields of joint-stock companies with a preponderance of foreign capital, makes it impossible to effect a strict comparison; individual examinations confirm, however, that the yield secured by foreign capital invested in joint-stock companies in

Poland did not on the whole decline more than in other countries during the economic depression, whilst since 1935 it has been consistently rising.

II. TRANSFER OF SUMS DUE TO OTHER COUNTRIES

(I) BALANCE OF PAYMENTS

As already stated, apart from solvency, we must also examine what possibilities there are of transfer being maintained. An analysis of Poland's balance of payments furnishes a reply to the query whether Polish economy is able to transfer the sums which are due to other countries in respect of interest and debt amortisation sums. Poland has no large capital invested abroad, nor has she any gold-mines. But she has the determination to do all possible to meet her obligations; there are many million Polish emigrants in other countries who year by year remit large sums representing their savings to their native land; in addition, Poland receives important sums from other countries in payment for her services in transit communication, and as a result of her favourable balance of trade.

These three items in Poland's balance of payments were the main means enabling her punctually to meet all her foreign obligations even at the trough of the depression, at a time when the greatest efflux of foreign capital from

Poland was taking place under the influence of fears evoked by the financial panics in Germany, Austria, and in other countries.

In the light of the balance of payments, the question of the maintenance of transfer by Poland can best be elucidated by explaining how it was that she succeeded in fully meeting her external financial obligations during six enormously difficult years of depression, whilst other debtor countries for the most part suspended the service of their foreign indebtedness as early as 1931-33. Supplementary information will be yielded by examining the quite exceptional circumstances which finally forced Poland to suspend the free transfer of debt-service sums in the spring of 1936.

The analysis of Poland's external indebtedness effected in the preceding chapters indicated a very considerable drop of about 30 per cent in the volume of private indebtedness caused by the withdrawal of foreign capital (1,850 million zlotys, see page 131). The decline in public external indebtedness during that time was relatively weaker and more gradual—a natural result of the formally long-term character of such debts* (about 750 million zlotys of

* There was an exceptionally sharp decrease in public foreign indebtedness in 1933, but it was not so much the outcome of actual redemption payments as of the devaluation of the U.S. dollar, the currency in which most of the public debts of Poland were contracted.

Government, local government and State-bank bonds; see Appendix E).

Apart from the redemption of private and public debts, the balance of payments had to bear the interest and commission sums payable on this indebtedness. During the period 1929–35, the following sums were transmitted abroad in respect of private interest payments, dividends, profits, royalties, etc.:

(*In Million Zlotys*)

<i>Year</i>	<i>Transfers in Respect of Company Profits*</i>	<i>Transfers in Respect of Cash Credits</i>	<i>Transfers in Respect of Other Sums Payable and Investments</i>	<i>Total</i>
1929	53·1	113·2	119·3	285·6
1930	54·3	130·0	108·8	293·1
1931	40·7	103·6	116·5	260·8
1932	27·5	72·1	70·5	170·1
1933	14·5	43·7	59·1	117·3
1934	16·1	41·3	50·7	108·1
1935	14·4	31·3	43·8	89·5

* The item of "transfers in respect of company profits" should not be construed to represent the entirety of the profits netted by foreign capital, nor even taken as the basis for determining the yield secured by such capital in Poland. This item and that covering "other sums payable and investments" represent sums actually remitted to other countries in respect of profits, dividends, royalties, etc. The sums remitted and those actually earned in this connexion do not coincide, and the part which remains in the country for further investment, extensions of investment works, increases of floating funds, etc., fluctuates within a very wide range. Moreover, in inter-company relations during periods of unrestricted transfer there are forms of transmitting profits to other countries which are statistically indiscernible.

Besides the current service of the private indebtedness, Poland had to arrange for the service of her public credits.

In all, Poland remitted the following sums to other countries during 1929–35 as interest and commissions on the Government, local government, and State-bank indebtedness.

• (*In Million Zlotys*)

<i>Year</i>	<i>Remitted by Government and local govt. boards.</i>	<i>Remitted by State-owned banks.</i>	<i>Total</i>
1929	125·2	12·3	137·5
1930	180·4	10·5 ,	190·9
1931	187·9	10·1	198·0
1932	120·9	9·1	130·0
1933	102·0	7·1	109·1
1934	63·0	6·1	69·1
1935	58·4	5·1	63·5

The sharp drop in the service of this indebtedness in 1934 and 1935 is chiefly explained by the considerable purchases by Polish investors of Polish public bonds issued abroad. This enabled the Government and the local government boards to effect normal sinking fund operations by buying bonds on the open market in Poland (particularly evident in the case of the 7 per cent Stabilisation Loan); similarly, a large proportion of the interest payable was due to Polish bondholders, and this also served

to relieve the pressure on the balance of payments.

The aggregate sum thus transmitted during the difficult years of 1929–35 came to about 4,800 million zlotys (1,850 million as the redemption of private and 750 million as that of public indebtedness, and 2,192 million for the service of private and public indebtedness). Even if we deduct from this sum the whole of the insufficiently precise item of the redemption of goods credits (about 1,000 million zlotys) and introduce a marked correction in respect of the decrease in public indebtedness as a result of the accountancy change in parity and not of actual transfer (see footnote, page 184) the sum of about 3,500 million zlotys is yielded as representing the actual, real sum transferred abroad.

In order to realize how eloquent these figures are, it should suffice to point out that the aggregate indebtedness of Poland at the end of 1935 came to about 7,350 million zlotys and that the balance of payments for that year (excluding capital items) totalled 1,220 million zlotys. At the outset of the depression, at the end of 1929, the gold and foreign exchange reserves of the Bank of Poland amounted to 1,226·6 million zlotys. The redemption of the enormous sum of about 3,500 million zlotys under Polish economic conditions obviously could not have been done otherwise than by

adapting the whole domestic economy of the country to the necessity of securing sufficient means for effecting transfers to other lands. Thus, its commodity export was primarily utilized for this purpose, with the result that the sum of 1,193 million zlotys was yielded by favourable balances of trade during the period 1930–35; the surpluses yielded by migrational and railway services also served to relieve the situation to some extent. But all these items were insufficient to cover the deficit in the capital items of the balance of payments (owing to the ever-greater obstacles in the way of Poland's export, suspension of transfer from other countries, etc.), and Poland was forced gradually, but steadily, to reduce her stocks of gold and foreign exchanges by 755 million zlotys to the low level of 471 million zlotys at the end of 1935. ■

(2) CAUSES OF THE PROVISIONAL SUSPENSION OF TRANSFER IN 1936

The question now arises: Why, in spite of the enormous effort undertaken and realized in order to meet her foreign obligations, was Poland finally obliged to abandon her free gold currency and to suspend the unrestricted free transfer of capital to other countries? There were two complexes of causes, both the outcome of the ab-

normal international economic relations evoked by the unprecedented world depression. These were: (1) the drying up of the sources (which had for six years fed the Polish balance of payments, and which had thus rendered possible the maintenance of transfer for the service of foreign indebtedness) owing to the above-mentioned exceptional circumstances; (2) the special coincidence of events evoked by the crisis of the French currency and of the whole "gold bloc." The last phase of this crisis began in the second half of 1935 and reached its greatest intensity during the first quarter of 1936.

The balance of Poland's foreign trade, which showed a surplus of 410·4 million zlotys in 1931, declined in 1935 to 65·5 million zlotys. An unfavourable trend can also be observed with regard to the two other sources mentioned. The favourable balance of the emigrant remittances declined from 209·1 in 1929 to 105 million zlotys in 1935, while the balance of earnings on transit traffic declined from 194·1 million zlotys in 1929 to 53 million zlotys in 1935. (It may be added that at the time of the introduction of foreign exchange restrictions, in Poland, the arrears of payments due from Germany to the Polish State Railways amounted to 90 million zlotys.)

In connexion with all these events, the further

shrinkage of the gold and foreign exchange reserves of the Bank of Poland would have brought on incalculable results for the country. Poland could no longer secure uncontrolled sums of foreign exchange as she had transferred formerly, in spite of the fact that the requirements were now much smaller owing to the slackening in the efflux of capital and to the shrunken substance of the debts themselves. But if the existing difficulties had not been unexpectedly reinforced by a new external factor, Poland might have maintained the freedom of foreign exchange transfers after weathering this critical period. This surprise factor was the crisis which broke out in the camp of the gold currency bloc, and the public disquiet which it evoked in Poland.

The position of Poland can be compared to that of a great bank which has for a number of years of depression been gradually paying its creditors by realizing its liquid assets, when it is suddenly faced by a persistent "run" of its depositors at a time when even its reliable debtors find it difficult to meet their obligations and when the most dependable sources of revenue fail. Such a bank cannot, of course, satisfy all its creditors at a moment's notice, and must defend itself by proclaiming a moratorium if other great banks do not come to its support (or, to return to the given case, if the

other countries do not grant new loans). The Polish Government found itself in such a position, and in view of the panic and other circumstances mentioned above was obliged to meet the situation by restricting freedom of transfer. Partly under the influence of anticipated currency depreciation in other countries, and partly under that of psychological factors within the country, the public began to hoard gold and foreign exchange upon quite a large scale.

The Government was quick to see that this movement would be prejudicial to the economic interests of the country, and in April 1936 decided to introduce temporary control of gold and foreign exchange. Poland was forced temporarily to suspend the transfer of sums due in respect of the service of her foreign bond issues. The measures of control introduced place no obstacles in the way of current economic operations. Those seeking foreign exchange in order to buy raw materials, necessary machinery and tools, etc., receive all they require, and the Government is gradually restoring the service of Polish public and private foreign indebtedness.

(3) OUTLOOK FOR THE FUTURE

Since foreign exchange restrictions have been applied in Poland, such changes have taken place in the economic life of the country and in

the financial situation of the world that many of the hitherto adverse factors which had been potent can now be presumed to have lost much of their force. There are powerful arguments supporting the view that even without the protection of foreign exchange control the balance of payments in Poland will develop in much more favourable fashion than during the final phase, before the restrictions were introduced.

First of all, there is a marked tendency in nearly all the countries for return to a currency stabilized at the actual level attained in the middle of 1937; the equilibrium this will evoke will be an important factor in restoring better conditions of turnover in capital and commodity exchange. Conditions in Poland have greatly improved during the last year, and the advent of an actual and potent revival will effectively check the efflux of capital.

Finally, the period of frozen up items in Poland's balance of payments has been passed, since she has negotiated a number of commercial agreements and financial arrangements which have assured her the possibility of gradually regulating and collecting old items of this kind while simultaneously obviating the appearance of new ones. In addition, as a result of the conversion operations effected, the burden of the service of Poland's foreign indebtedness has

been greatly reduced; the budget estimates for 1938-39 foresee in all 44 million zlotys for the payment of interest sums and 39·3 million for amortisation payments.

All these and a number of other considerations appear to indicate that Poland will, in the future, again have a satisfactory balance of payments with the possible liquidation of transfer restrictions. But even before such liquidation commences the Polish Government is in a position, as already related, partially to resume the service of the foreign debts and to assure the transfer of interest sums and amortisation instalments in respect of fresh influxes of foreign capital. An important step in this direction is an executive order issued by the Ministry of Finance on November 8, 1937 (*Journ. of Laws of the Rep. of Poland*, No. 79, item 576, Warsaw, 1937), envisaging the conditions for freeing sums remitted for the service of redemption and interest payments in respect of new foreign loans from the working of the foreign exchange control system.

The conviction is expressed that restrictions in world trade will shortly be reduced, and the civilized countries will in the near future appreciate that the best way to overcome depression is to remove the abnormalities which have sprung up of late years (including all the obstacles in the way of international commodity

exchange, movements of capital, and emigrant traffic). Poland will then be able again to apply her principles of transferring, without any restrictions, all sums necessary for the service of her public and private foreign debts.

NOTE.—The general law mentioned on page 168 has since been enacted by the Polish legislative chambers and extends broad privileges to all kinds of new investments (*Journ. of Laws of the Rep. of Poland*, No. 26, April 15, 1938, item 224).

CHAPTER IV

OPENINGS FOR FOREIGN CAPITAL IN POLAND

A. PURPOSEFULNESS OF FURTHER FOREIGN INVESTMENTS IN POLAND

IT has been demonstrated that Poland's indebtedness is very small compared with that of other countries, in relation to its area, population, natural wealth and conditions, and the State budget. It has likewise been shown that even during severe economic depression a great part of the private foreign indebtedness was paid off and that important sums were transmitted abroad as dividends, interest, etc., that the debts incurred by the local government bodies and by long-term mortgage credit associations are moderate, and, finally, that the transfer of interest and sinking fund payments was executed punctually and regularly during the most difficult years of depression up to the spring of 1936 and that transfer was mostly resumed after only a short interruption. Owing to the insufficiency of capital in the country, the interest yield on Polish bonds continues to be high, and is, therefore, most attractive to capitalists.

It will be asked : Is it advantageous for Poland to take up further foreign capital for investment

in the country, and can she offer profitable conditions of operation for such capital? The following facts point to an affirmative reply:

(1) The further influx of foreign capital into Poland on economically acceptable conditions and in suitable forms is eminently desirable in spite of the enormous progress made in every field of effort during the last nineteen years, as the country has not been able in such a short time and with the insufficient internal capitalization to make up for the neglect of over a hundred years of alien rule. It is hardly possible for Poland to amass by means of internal savings the thousands of millions of capital necessary for speedily raising the country to an economic level corresponding with the actual requirements of a nation belonging to Western European civilization for the last ten centuries. Naturally, the most advantageous form of foreign capital for Poland would be long-term bond investments, as with this form it is most easy to cover amortisation and interest charges.

(2) It should be possible for foreign capital to find profitable application in Poland since, in view of the heterogeneity of the country's needs, it could be directed to economically profitable undertakings, selected with an eye to the balance of payments of the country; in such cases it should increase production and lower its cost, and so create favourable conditions,

assuring proper interest yield and amortisation of the capital invested.

B. APPROXIMATE CAPITAL REQUIRED FOR NECESSARY INVESTMENT WORKS

In order to elucidate these rather general postulates, it would be of interest first of all to estimate the aggregate capital essential for the execution of useful investments, supplementing this figure with the total sum which it is possible to attain by means of internal capitalization.

General Plans.—General plans and cost calculations of those investment works necessary for diminishing the differences between Poland and the countries of Western Europe in the domains of communication, electrification, land improvement, urban installations, housing conditions, etc., have been prepared in Poland on several occasions. They all have the character of only approximate estimates, as the needs for which they provide undergo change in dependence upon various factors (technical progress, etc.); the estimated capital necessary for carrying out the investment works likewise fluctuates with the changes of prices. In view of the foregoing, the drawing up of a large-scale definitive plan, embracing the entirety of the multiplicity of the country's investment needs and the estimated cost of such works, would at this juncture to some extent be purposeless. It is sought,

on the other hand, to give the reader a general idea of the subject, for this will suffice to demonstrate that under present conditions Poland affords a field for useful and profitable investment works in which hundreds of millions of pounds sterling could be placed within the next ten or twenty years, and of which relatively only a certain part could be secured by the process of normal internal capitalization. With these reservations, however, it can be accepted that the general survey given below will facilitate an understanding of the general situation.

Public Works.—A list of the most urgent public works necessary in Poland was published by the Ministry of Public Works in 1931, and presents the following general picture (for details see pp. 204 seq.).

	Million Zlotys
<i>Highways</i>	
National highways	345
Local government highways ..	1,270
Construction and remodelling of bridges	110
<i>Waterways</i>	
Improvement and regulation of waterways	360
Construction of new waterways	500
<i>Government Buildings</i>	
Construction of State buildings (school-houses, courts of justice, office buildings, etc.)	400
<i>Electrification</i>	
General electrification works ..	2,400
 <i>Total</i> ..	<hr/> 5,385

This list does not give a full idea of the present needs in the domain of public works. As already stated, it embraces only the most urgent works within the scope accepted in 1931; in many respects views upon this matter have undergone change since then, this being reflected in the survey of investment opportunities.

Railways.—It has been estimated at different times that about £40 millions will be needed to cover the cost of construction of new railway lines, and a similar amount for the modernization of the existing railway equipment (strengthening of tracks, installation of up-to-date signalling apparatus, level-crossings, speeding up of traffic, etc.) during the next ten years.

Mercantile Marine.—Expenditure on the development of the Polish mercantile marine, still relatively speaking in its infancy, can undoubtedly be regarded as being an investment which is as purposeful as it is profitable. About 77 per cent of the volume of Poland's foreign trade in 1936 was transported by sea. Of this volume, barely about 10 per cent was carried on Polish keels. This state of affairs must naturally be changed, not only for considerations connected with the balance of payments and with national prestige, but also for reasons of national security. Much is being done to increase the tonnage of cargo and passenger vessels, but the progress made is necessarily dependent upon

economic conditions, and for this reason it is hardly worth while to estimate to-day what capital will be required for this purpose within the next few years, but important means will certainly be necessary.

Telephone System.—According to the plans examined by the experts of the League of Nations and presented before the Public Works Commission of the League in 1932, an expenditure of £5 millions for extending the telephone system has been recognized as being urgent.

Motorization, Cold-Storage Plants, and Grain Elevators.—The cost of investment works connected with the motorization of the country, the development of the system of cold-storage warehouses, and the construction of grain elevators has not so far been calculated in any exact and detailed plan, but it can be assessed at some millions of pounds sterling.

Urban Investment Works.—There are various installations which are certainly needed by many of the towns of Poland (sewerage, waterworks, tramway systems, market halls, gasworks, abattoirs, hospitals, etc.), the cost of which has been estimated at about £35 millions.

Industries.—It is impossible to estimate at this juncture how much capital is needed for investment works in the industries of the country, since this depends upon the in-

calculable future development of business conditions and technical progress.

Land Improvement Works.—In the domain of land-improvement works (draining, irrigation, consolidation of holdings, reclaiming marsh-lands, etc.) it is difficult to give a very exact estimate of the means necessary for this purpose, as the work can obviously be carried out upon a larger or a smaller scale; it must also be spread over fairly long periods of time and it must therefore be influenced by changes in the levels of prices. According to the calculations of experts and to the special estimates computed by the State Land Bank, the major works programme in question can be divided into the following groups (excluding the river regulation works already mentioned in the table on page 198):

I. Land improvement, including the drainage of arable fields, meadows, marshes, meadow irrigation, construction of fishponds, etc., upon an area of about 45,000,000 acres, of which 37,000,000 acres constitute land utilizable in agriculture.

This group also comprises a special problem dealing with about 4,000,000 acres of swamps and marshland in the Polesie district of Poland. The matter was studied in detail in 1926 by a Committee of Experts of the League of Nations at the request of the Polish Government; the results of the investigation were published in a

report entitled *Note du Comité d'Experts mis à la disposition du Gouvernement Polonais par la Société des Nations sur l'assèchement des Marais de la Polesie*, Geneva, 1927.

II. Irrigation works upon barren and other land covering an area of about 65,000,000 acres.

III. Consolidation of patchwork farms (the component fields of which are not in direct proximity to each other, but often at great distances from each other), representing an aggregate area of approximately 30,000,000 acres.

The execution of the plan as a whole requires the expenditure of very important sums. As, however, the investments in question are not so much intended to yield direct profits, as rather to bear the character of necessities of social reform, and in view of the scattered nature of the works in question, it is out of the question to finance them by means of foreign loans.

Rural and Urban Housing.—A great many dwelling-houses, both in the towns and in the villages, were destroyed during the Great War (the town of Kalisz, for instance, was almost completely burned down by the Germans at the beginning of the War), and this, coupled with a considerable annual increase of population, makes it necessary to spend large sums of money upon the construction of appropriate housing.



In a full understanding of the enormous significance of all these investment works, the Polish Government has since 1937 devoted special attention to the systematic and consistent carrying out of such public works on the basis of new, precise and broadly conceived plans, and with the backing of funds partly contained in the Budget and partly yielded by credit operations; special attention is devoted to all investment works likely to raise the industrialization of the country.

C. DIVISION OF APPLICATION OF POLISH AND OF FOREIGN CAPITAL

It is very difficult to state what sum Poland will be able to devote in order to meet this expenditure on investment works by means of internal capitalization since this process depends upon a number of factors the future shaping of which it is impossible to foresee. It can be stated, however, that according to data published by the Polish Institute for Economic Research, such disbursements in 1929 amounted to a total of approximately 2,120 million zlotys, whilst internal accumulation of capital in that year came to about 1,700 million zlotys.

The value of investment works effected in 1933 at the trough of the depression was about 37 per cent of the figure for 1929 after correction for price fluctuations. If the drop in prices is

taken into account, much lower figures will be yielded. In later years, however, as the following table shows, the movement of actual investment assumed an upward trend:

Indices of Actual Investment (1929 = 100)

Year	<i>Actual Investments</i>
1933	37
• 1934	42
1935	50
1936	61*

Naturally, under favourable circumstances the dynamics of internal capitalization may increase enormously.

A natural division of work can be effected between Polish and foreign capital, in view of the fact that a number of investment works (whose vital and urgent necessity is universally admitted) cannot for various reasons be undertaken by foreign capital. These must therefore be realized by Polish capital as far as its means permit. Examining this matter from the viewpoint of the sums accumulated by internal capitalization, these will, of course, be primarily utilized year by year for rural land improvement, dwelling-house construction, and for investment works in medium and small-scale

* The considerable increase in the index of investment in 1936 was largely due to the greater activity shown in plannedly carrying out public investment works. The budget estimates for 1938/39 contain an item of about 1,000 million zlotys earmarked for such works (see page 203) and this should furnish a powerful impulse to private investment activities.

industrial enterprises. Should internal capitalization make such progress that its means will suffice, it would, more than hitherto, be likewise turned to use in other fields of investment, where, however, there will still be plenty of scope for foreign capital seeking large-scale and extensive fields of endeavour. In any case, these figures furnish additional confirmation that there is still ample scope for the productive investment of foreign capital in Poland.

D. SURVEY OF INVESTMENT OPPORTUNITIES

In view of this, it will not be amiss to make a detailed examination of the more important fields in which foreign capital should be able to find application; covering these divisions in the order of their economic importance, an attempt will be made in each case to elucidate the need for the investment works, the basis for the expected automatic yield of the capital invested and the sum of capital necessary.

In conclusion, a brief survey will be given of other opportunities for profitable investment in Poland by foreign capital, although they refer to investments of secondary social importance.

(1) LAND AND WATER COMMUNICATION

It is unnecessary to dwell at length upon the prime importance of a rational system of communications in the economic life of a country.

The speed, low price, and convenience of communication are basic factors for all economic development, since they have great influence upon the cost of production of the commodities sold upon the market. All progress made in improving and rationalizing communications serves to quicken the exchange of commodities and of services, besides enhancing the reciprocal exchange turnovers and buying ability of countries in their international relations. For all these reasons the attraction of foreign capital for the financing and improvement of all means of communication is fully justified.

In the realm of communications a wide field of action is offered by Poland as not only the system of highways and roads, but also those of the railways and waterways are still far from adequately developed.

(a) *Railways. Construction of New Lines.*—Experience has shown that the large-scale financing of railway construction by foreign capital has a very favourable influence upon economic development, and that such collaboration on the part of that capital has been, if rationally conducted, a very profitable undertaking in many countries, as for instance in South America, Austria, and in pre-War Russia (naturally if political upheavals do not upset all calculations). To-day, the majority of the railway

trunk lines in the world are the property of private capital, and are administered under private ownership.

The total length of railway lines in Poland amounts to only about 13,000 miles, that is approximately 8·5 miles of track per 100 square miles of total area; the relation in other countries is a much higher one.

RAILWAY LINES IN CERTAIN COUNTRIES (1935)

<i>Country</i>					<i>Miles of Track per 100 Square Miles of</i>	<i>Total Area</i>
	
Belgium ..	..	..	..	..	26·6	
Germany ..	..	..	..	..	18·7	
France ..	..	..	..	..	12·5	
Austria ..	..	..	..	..	11·2	
Czechoslovakia ..	..	..	..	..	15·6	
Poland (average)	..	..	..	..	8·5	
Poland (Central and Southern)				..	8·1	
Poland (Western)	..	..	..	..	18·5	
Poland (Eastern)	..	..	..	..	5·5	

The insufficient development of the railway system in Poland is due to the fact that the lines were built during the years when the country was dismembered by her neighbours, of which Germany was the only one to pay proper attention to the development of the railways within her Polish provinces. In this, however, she was chiefly actuated by motives of military strategy, and the density of the network was kept at a lower level than the average for all Germany,

being only 15·1 miles per 100 square miles as against 19·7 miles, the average for the total area of the pre-War Reich.

The Austro-Hungarian Monarchy had to struggle against financial difficulties throughout the nineteenth century, and in any case she always tended to neglect Galicia (present-day South Poland), and to favour other parts of the Empire. Independently of this, the geographical situation of that part of Poland, cut off from the rest of that Empire by the high mountain chains of the Carpathians, was such that its railways were of purely local, and not national, significance; they were, therefore, insufficiently built up and came to only 9 miles per 100 sq. miles of total area.

The lowest degree of development in the railway systems upon Polish soil is indicated by the sparse network constructed under Russian rule (before 1914): 4·4 miles per 100 sq. miles. The reason for this was that Russia based her strategic plans upon the withdrawal of her troops from Poland; she therefore deliberately and for many decades held up the private initiative of the Poles: the realization of plans for the construction of railway lines on Polish soil was systematically blocked, permission being given mainly for the building of lines which could serve for the evacuation of Russian troops from Poland in case of war.

It was for these reasons that the railway system of Poland proved inadequate for the economic needs of the country from the very beginning after the War. It is true that with the development of motorization and aviation, the railways have lost a part of the preponderance which they had during the first hundred years of their existence, but there can be no doubt that they still afford the cheapest and safest means of communication for the mass transport of goods and passengers over the rather great distances which have to be covered in Poland.

The Polish Ministry of Communication has decided that about 3,500 miles of new railway lines are necessary to meet the economic needs of the country and to adapt the existing network to post-War political conditions. This action is conducted over and above the improvement of the present lines (which had been greatly damaged and destroyed during the War) and the modernization of the rolling stock and equipment.

The Polish railway system constructed over 1,250 miles of new lines during 1918-36, and approximately a further 310 miles was commenced in 1935-37. The Government is not opposed to the collaboration of foreign capital in order to accelerate the execution of these plans, and has initiated such co-operation (as regards the building of a trunk line of national

importance) by granting a concession for the Silesia-Baltic railway, already mentioned as serving to link up the industrial region and coal-fields of Polish Upper Silesia with the Baltic Sea.

There still remain about 2,500 miles of railway lines to be constructed at the estimated total cost of about £40 millions.

Of the lines the construction of which is planned by the Ministry of Communications, the following are considered to be amongst the most desirable:

(1) The Lublin-Belzec-Lwów line, 145 miles long, which will furnish the shortest possible connection between Lwów and Warsaw, besides curtailing the distance to be covered by transit traffic between Roumania and Gdynia;

(2) The Wieluń-Radom-Lublin line, 186 miles long, which will furnish the shortest connection for transit traffic from southern Germany to the southern territories of the Soviet Union;

(3) The Kozłów-Kiwerce line, 310 miles long, which will facilitate transport of coal and industrial products to the eastern provinces of Poland, and of foodstuffs for the industrial regions of Polish Upper Silesia on the return runs;

(4) The Kielce-Mędrzechów line, 55 miles long, affording the shortest connection between

the central parts of the country with the sub-Carpathian health-resorts (Krynica, Muszyna, Żegiestow, Piwniczna, etc.) and tourist centres;

(5) The Kamień Koszyrski and Wołkowysk line, 128 miles long, as a transit traffic route between southern and northern Poland for transports using the roundabout route *via* Brześć;

(6) The Mława-Ostrołęka line, about 45 miles long, will shorten the run from the north-eastern regions of the country to the Baltic ports by about 60 miles, besides relieving the overburdened Warsaw railway junction system; this line will also facilitate competition with the East Prussian lines for transit traffic between northern Germany and certain frontier points of the Soviet Union;

(7) The Nowy Targ, Szczawnica and Nowy Sącz line, 53 miles long, will serve to facilitate communication with the health-resorts of the Pieniny and, apart from its use to tourist traffic, will likewise serve for the transport of andesite from the local quarries;

(8) The Palmira-Płock line, 58 miles long, will afford the shortest connection between Warsaw and Płock, besides being of service for the tourist traffic to the Kampinoski Forest and for suburban communication.

The statutory regulations governing the construction and exploitation of private railway

lines of public utility are embodied in the law of October 14, 1921, in respect of the granting of concessions for the construction of private railway lines (*Journ. of Laws of the Rep. of Poland*, 1921, No. 88, item 646), and the law of March 17, 1932, in respect of concessions for railways of local importance and urban traction (*Journ. of Laws of the Rep. of Poland*, 1932, No. 38, item 391).

The law of 1921 regulates matters connected with railways of national importance, while that of 1932 refers to those of purely local interest. The Minister of Communications decides which projected railways are of local or national importance, and it is he who grants permits for field surveys in the case of both types of lines. Concessions for the construction and exploitation of railways of national importance are granted by decree of the President of the Republic published in the *Journal of Laws of the Republic of Poland*, whilst concessions in respect of railways of local significance are granted, without regard to mode of traction, by the Minister of Communication, and published in the same journal.

Concessions for railways of national importance may in principle be granted for a maximum period of ninety years, and of fifty years in the case of local lines. Upon the lapse of the concession period, the entire property of the lines

affected, including all real estate, fixed and movable property, passes into the hands of the State without payment of any compensation. This right does not apply to lines of local importance, constructed and exploited by local government bodies. The Government has the right of earlier purchase within time limits, and upon conditions envisaged in the concession deed.

Concessions for the construction of railways of national or local importance and of urban traction systems envisage the right of acquiring land necessary for the building of the lines by means of compulsory alienation.

Passenger and freight tariffs and incidental charges must be confirmed by the Minister of Communications. Confirmation of these schedules must take into consideration the need for assuring a proper interest yield and amortisation plan of the founders' capital (including both stock and bond issues) during the life of the concession. In addition, the financial status of the enterprise must be considered. If the receipts of the railway surpass a certain fixed limit, the State can reserve its right to receive a share in the excess profits, or the concessionnaire can be bound in such case to decrease the tariff rates applied. In the event, however, of the receipts failing to cover the cost of maintaining the line, the Minister of Communications is empowered to approve an appropriate increase

in the rate schedules, or to arrange for financial aid being extended by statutory means. The financial assistance of the Treasury can assume the form of guarantees that net profits accruing from operation of the lines will suffice to assure the service of interest payments and amortisation of the stock and bond capital. In addition, railways of local importance may receive the privilege (during years of deficits) of interest-free credit for sums due in respect of joint use of stations and equipment of the Polish State Railways.

The following taxation and fiscal exemptions have been granted to encourage the construction of local and urban lines, and are valid until May 7, 1942:

- (1) Exemption from all alienation and transfer fees in respect of the acquisition of land;
- (2) Exemption from Income Tax, provided that net profits do not exceed 5 per cent of the foundation capital;
- (3) Bond issues, connected with the extension of financial or credit help, are exempt from Stamp Duties during the first year of the concession term.

The law of March 17, 1932, likewise regulates the procedure for the granting of concessions for public utility urban traction lines, whether of the elevated, underground, or street-level system. Concessions for such lines in urban

centres, or within the sphere of influence of such centres, are granted by the urban district council with the approval of the supervisory authority. Rulings as to the extent of the sphere of interests of urban centres are made by the Minister of Communications. Boroughs building urban traction lines on their own account do not require concessions issued by the State authorities.

There can be no doubt that the terms and conditions of concessions for such railways and communication lines are advantageous. They make it possible, with the help of a relatively small stock capital, with bond issues (if necessary guaranteed by the State), to establish and to operate large-scale undertakings having an assured yield provided the construction and operation of the railways are conducted on rational lines. In this respect, Poland has very interesting pre-War traditions, as the private railways constructed and administered by Poles with the participation of foreign capital upon a concession basis consistently yielded high profits, as in the cases of the Warsaw-Vienna Railway and the Łódź Fabryczna Railway.

While on the subject, it would not be amiss to stress the fact that, thanks to the prudent policy of the Polish Railway Administration, the results of operation of the State lines, even during the depression, have been better than

for the majority of the other European railway systems, especially when compared to those attained by the railways of some of Poland's neighbours. The following table affords data upon the revenues and expenditure of the Polish lines and those of three nearby countries:

REVENUE AND EXPENDITURE OF RAILWAY SYSTEMS (1935)

(*In Millions of the Respective Currencies*)

	<i>Poland</i> <i>Zlotys</i>	<i>Germany</i> <i>Marks</i>	<i>Austria</i> <i>Schillings</i>	<i>Czechoslovakia</i> <i>Crowns</i>
Revenue ..	892	3,586	437·5	3,572
Expenditure	761	3,434	458·3	3,938
Coefficient of operation	85·3	95·8	104·8	110·2

In spite of the low average freight rate in Poland, the Polish State Railways yielded a surplus of revenue over expenditure of 131 million zlotys. This surplus compares well with the results yielded by the railways of other countries, namely, with the smaller revenue of the German lines (relatively to their turnover), and the deficits yielded by the railways in Czechoslovakia of 366 million crowns, and in Austria of 20·8 million schillings (according to the statistics compiled by the Union Internationale des Chemins de Fer).

These figures and the results of operation attained by the Silesia-Baltic Railway, owned by concessionnaires (see page 108), clearly indicate that foreign capital can find favourable opportu-

nities in the construction of railway lines in Poland.

(b) *Modernization of Railway Equipment.*—The modernization of railway equipment and installations in Poland in accordance with present-day technical requirements involves the expenditure of important sums. The network of railways in the country was in a deplorable state when taken over from the armies of occupation after the Great War. In spite of this the system was very quickly put into working order, and its condition to-day is quite satisfactory. During 1918–33 more than 3,000 destroyed railway stations and buildings were rebuilt; the rails upon about 3,500 miles of track were replaced; about 1,800 steam locomotives, 62,000 goods waggons, and more than 1,650 passenger waggons were purchased, etc. But, owing to the rapid progress made in the technique of railway communication and the acceleration of economic activities in general, the problems facing the Polish railway system are still great.

The competition of the aeroplane and the motor-car has given a great impulse to the acceleration of railway traffic. In order to cope with this, Poland must, in company with other countries, make her railway signalization system more efficient, important additions must be made to rolling stock adapted for the attainment of higher speeds, etc.

It is rather difficult to estimate the cost

of these improvements, but the sum of about £40 millions will not be far off the probable amount essential during the next ten years. The rate of progress in making these investments will in a great measure depend upon the means available. The expenditure incurred should not be effected from the current revenue of the railways, as it is in respect of fundamental capital investments; the Polish Government has therefore acted wisely in basing a part of the modernization programme (such as the introduction of compressed-air brakes for goods-waggons, electrification of the Warsaw railway junction system, etc.) upon appropriate foreign credits (already dealt with herein); it would be advisable that such investment works be based on long-term credits, in accordance with the nature of the works which they serve to finance.

(c) *Highways*.—The economic significance of a proper system of highways and roads has always been recognized, but during the twentieth century its importance has been much enhanced by the development of motor-car traffic. The system of highways in Poland after the War was in a state of great neglect, especially in the part of the country formerly occupied by the Russians, i.e. in about two-thirds of the area of the present-day Republic of Poland. In spite of the great expanses of Russia, no great significance was ever attached to the proper development of

the road system: this policy was likewise applied by the Russian authorities to the part of Poland held by them.

The results of this state of affairs was that while there were about 55·3 miles of highways per 100 square miles in that part of Poland under German rule (more than in the case of all Germany), and 34·4 miles per 100 sq. miles in the case of southern Poland (held by the Austrians), the figures for the Polish territories occupied by the Russians were remarkably low (22·8 miles in the central provinces, 11·9 miles in the Province of Nowogródek, 8·4 miles in the province of Wilno, 5·5 miles in the Province of Wołyn, and 3·9 miles per 100 square miles in the Province of Polesie).

It was only after the Great War that the Polish Government could undertake systematic work in this field. About 7,200 miles of highways were constructed during the period 1924–36, but in comparison with Western European countries Poland is still very backward in this respect. For this reason the construction of roads and highways is considered by the Polish Government to be one of the most pressing and important problems awaiting solution to-day.

Poland's deficiency as regards her network of highways, compared with other countries, appears with even greater force than in the case

of the railway system. The table below affords comparative data showing this.

KILOMETRES OF METALLED HIGHWAYS PER 10,000 INHABITANTS (a) AND PER 100 SQUARE KILOMETRES OF TOTAL AREA (b)

<i>Country</i>	$\sqrt{a.b.}$	<i>Country</i>	$\sqrt{a.b.}$
	<i>Coefficient</i>		<i>Coefficient</i>
France ..	141·2	Austria ..	40·0
Denmark ..	128·7	Switzerland ..	28·2
Great Britain ..	100·0	Portugal ..	26·4
Belgium ..	63·0	Roumania ..	26·1
Czechoslovakia ..	56·6	Spain ..	25·2
Holland ..	51·3	Bulgaria ..	22·2
Germany ..	44·0	Finland ..	20·4
Italy ..	40·0	Yugoslavia ..	16·6

The figure for Poland comes to barely 25·0 miles per 100 sq. miles, and varies from 7·8 in the eastern border provinces to 55·3 in western Poland. In Europe, lower figures than for Poland are yielded only by Hungary, Albania, Lithuania, Latvia, Estonia, and the Soviet Union.

The type of the highways and main roads is below the standards accepted in other European countries. The thickness of the metalled surface should be greater, and its character, especially upon the suburban sectors where traffic is heavy, demands radical improvement. The Polish country roads, in some districts little adapted for motor-car traffic, very quickly deteriorated, especially in view of the fact that damage caused by the War had not yet been fully made good.

Pre-War neglect, however, has its good side, since it is now possible to undertake the construction of quite modern roads which will fully meet the needs of modern motorized traffic, and to arrange for some rational division of work between the railways and the roads. This latter point is all the easier of accomplishment, as all matters connected with communication have been concentrated of recent years within the Ministry of Communications.

The efforts made by Poland in the field of reconstruction of damaged and worn roads, and in building new ones, have been indeed very great. But the work still to be done is really enormous. In order to attain such a density of highways as, for example, in Germany, it will be necessary to construct about 1,875 miles of roads annually for twenty years. On the other hand, the average increment of highways in Poland during the last twelve years has not exceeded 600 miles per annum.

Calculations effected by the Ministry of Communications in 1935 indicate that the necessary investment works upon the road and highway system of the country during the next twenty years (including bridges) will cost about £61 millions for national highways and £92 millions for local government roads.

The programme of road construction and repair for the six-year period 1935/36-1940/41, the

execution of which has already been commenced, foresees the remodelling of about 3,000 miles of the existing routes (having the heaviest traffic) by the laying down of modern metalled surfaces, the construction of similar new modern national highways over a length of about 715 miles, and 2,550 miles of local-government roads. The total cost of these works, including the necessary bridges, has been estimated at about £25 millions.

It was in order to facilitate the financing of road building and conservation that the State Road Fund was founded (by the Law of February 3, 1931) as a separate legal entity administered by the Ministry of Communications. The revenue of the Fund is derived from:

- (1) Fees payable by all types of mechanical and horse-drawn vehicles and trailers (excluding agricultural tractors) used for commercial transport of goods and passengers beyond the area of the borough of registration;
- (2) a tax on motor spirit (petrol, gasoline, etc.);
- (3) a tax on advertisement hoardings set up alongside roads and highways;
- (4) certain State levies and fees (tolls, etc.);
- (5) pecuniary grants estimated for in the State budget;

(6) fines for infringements of traffic regulations;

(7) revenue yielded by the State works producing road materials;

(8) revenue yielded by the sale of superfluous or unnecessary road materials.

In order to assist the Fund in its task, the Government has agreed to taxpayers settling arrears by services and supplies in kind (road materials, transport of same, and manual work on the building of roads).

The Fund is empowered to accept loans against the security of its revenues or the guarantee of the Treasury. According to the balance sheet of the State Road Fund (as on October 1, 1937) its outstanding debtor scrip totalled 62,596,522 zlotys. This total figure includes the aggregate sums of promissory notes issued in foreign currencies by the State Road Fund and guaranteed by the Polish Government (see data given on page 101).

Apart from Road Fund scrip issued formally in foreign currencies, a part of the zloty scrip which was primarily placed on the home market has been disposed of abroad. In view of this the actual interest shown by foreign finance in the affairs of the Fund is greater than would appear from the above figures. The Italian engineering firm of Messrs. Puricelli has conducted some major road works for Poland upon credit condi-

tions. The debtor scrip of the Fund bears 6 per cent interest, with an amortisation period of from four to five years. The interest payments effected by the Fund in respect of its indebtedness during the season 1936–37 totalled 3·2 million zlotys as against a total expenditure of 64·5 million zlotys.

While the construction of railways in Poland by foreign capital can be based upon exploitation concessions, the building of roads and highways has so far been undertaken by that capital only upon the basis of specified works designated by the authorities, and executed upon credit terms. This matter is closely connected with the question of developing motor-car communication in Poland, discussed below.

(d) *Motorization of Road Traffic.*—As regards motorization, Poland is still very backward, merely standing at the threshold of her possibilities in this respect. It will be seen from the table on the next page that the number of motor cars in Poland increased fairly rapidly up to the year 1931, after which, with the deepening of the depression, a decrease ensued which persisted to 1936; the following figures represent the total number of all mechanically driven vehicles in Poland (in thousands) at the beginning of each year:

OPENINGS						225
1925	1926	1927	1928	1929	1930	1931
11·4	17·1	19·7	25·7	34·3	43·3	47·3
1932	1933	1934	1935	1936	1937	1938
36·7	34·3	35·3	34·2	34·1	37·5	44·2

The following table shows how small is the number of motor cars in Poland (excluding other mechanically driven vehicles) compared with that for other countries (status on January 1, 1936):

			Motor Cars, in Thousands	Motor Cars, per 1,000 inhabitants
U.S.A.	..	..	26,221	205·0
France	..	..	2,065	49·2
Great Britain	..	..	2,043	43·4
Germany	..	..	1,232	18·3
Italy	..	..	397	9·2
Belgium	..	..	197	23·7
Czechoslovakia	..	..	125	8·2
Roumania	..	..	29	1·5
Poland	..	..	25	0·7

There is only one factory in Poland manufacturing motor cars. It belongs to the group of the State Engineering Works, and produces motor-lorries (motor-trucks) on the strength of a licence issued by the Swiss Saurer Company, and passenger cars of the Italian Fiat model. In exchange for ceding their patent rights, and for partly financing the production of motor cars in Poland, the foreign companies in question have certain taxation prerogatives, and in addition have priority in tenders to Government and

State institutions. The output of motor cars is based on materials and spare parts produced in Poland.

The arrangement with the Saurer and Fiat companies does not exclude the possibility of the Government assisting initiative from other quarters. The Polish Government fully understands the importance of motorization for the economic development of the country, and therefore is supporting it very energetically. With this object in view a law has been passed whereby the manufacture of motor cars is licensed by the Ministry of Trade and Industry, the concession system having been introduced: the conditions requisite for granting a concession are defined in a decree of the Minister of Trade and Industry issued on September 28, 1935 (*Journ. of Laws of the Rep. of Poland*, No. 80, 1935, item 495). As a result, the capital required for the development of this industry can be invested without fear of the risk that a large number of motor-car factories may arise suddenly, increasing production capacity to a level exceeding the needs of the market. The first concession on the basis of this law was granted by the Polish Government to the Lilpop, Rau, and Loewenstein Co., Ltd., for the purpose of constructing a motor-car assembling plant in co-operation with the General Motors Co. of the United States. Gradually, this

Company is to produce complete motor cars and motor lorries of certain types according to the demand on the Polish market.

A decree of the President of the Republic was issued in May 1936 whereby special taxation privileges were envisaged for persons who purchase a motor car for a price not exceeding 12,000 zlotys. Buyers of such cars are empowered to deduct the amount paid from the assessed income, and if the income is smaller than the price of the motor car, they have the right to spread such deductions from Income Tax over an additional two years. The working of this legislation has already done much to accelerate the growth in the number of motor cars in Poland. The possibilities for foreign capital, with the necessary experience in such production, are therefore great. Further possibilities also exist: by undertaking to build or finance certain stretches of metalled highways on credit terms, and in connexion with the financing of concessions for the exploitation of motor-bus communication lines (with monopoly rights) in certain districts.

(e) *Waterways*.—Poland has a number of rivers constituting a network of waterways which covers nearly the whole of the country. After the necessary regulation works have been carried out and a few connecting canals (of moderate length) constructed, these rivers will

offer excellent arterial lines for goods transport between the main centres of economic activity in Poland, besides offering the shortest water route between the Baltic and the Black Sea, of particular importance for the development of international communications. The network of waterways thus set up will certainly prove both convenient and profitable in operation in view of the excellent climatic and hydrological conditions. There are a number of products (such as coal, timber, cement, etc.) which are transported in mass, and could therefore be shipped by water rather than by the more expensive railways in some directions.

At present only a small part of the waterways is suitable for such traffic. There are 8,730 miles of river waterways, of which only about 1,250 miles are suitable for vessels of over 250 tons, viz. the Vistula from Warsaw, the Warta from Poznan, the Bydgoszcz Canal, the Brda, the Noteć, the Prypeć, and the Niemen, with some of their tributaries, and, of course, the waterways within the area of the Free City of Danzig. Navigation by smaller vessels can be conducted over a distance of about 1,550 miles, whilst the drift rivers (i.e. those suitable for floating down timber rafts) account for a length of about 5,900 miles.

Goods traffic upon the waterways during the

peak year of 1926 accounted for 1·8 per cent by weight and 1 per cent of the ton-kilometres of all railway and waterway shipments. Germany has fairly similar natural conditions, and there the ratio is one of about 20 per cent; the corresponding figures for France and Holland are 22 and 84 per cent.

How Poland is still backward in respect of inland waterway goods traffic can be seen from the data given below on railway and waterway transport in certain countries.

<i>Country</i>	<i>Per Head of Population</i>		
	<i>Railway Goods Traffic (1935), in ton-kilometres</i>	<i>Waterway Goods Traffic (1934), in million tons</i>	
Germany	953	1·414	
Czechoslovakia	523	0·165	
Poland	524	0·002	

The causes of this backwardness are the same as in other branches of communications, viz. the neglect of communication facilities by the former Russian Government, and to a lesser extent by the former Austrian authorities.

The importance of waterways for the economic development of the country was well understood in the days of old Poland. It was in the eighteenth and in the first half of the nineteenth century that the network of canals

joining up the main river systems was constructed.

At the present time these canals fail to cope with their tasks. They were built over a century ago, at a time when economic conditions differed from those existing to-day. The original objects of these canals had nothing in common in many cases with the present complex of economic and transport needs. It is for this reason that the canals in question are but little used, being only of local significance (the only exception is the Upper Noteć Canal, joining Lake Gopło with the Bydgoszcz Canal).

The need for carrying out water regulation works is justified by two reasons: the safety of the riverside districts, and the exigencies of navigation. The rivers of Poland are almost exclusively of the lowland type; they have low gradients and numerous tributaries, and for these reasons should, after appropriate regulation works, furnish a very convenient system of communication. The Vistula is, of course, the longest waterway in Poland, but it is only more or less satisfactorily regulated on its lower course, rather worse on its upper course, and hardly at all on the middle reaches of the river, that is to say, that part for which Russia was responsible before the War (267 miles). The same may be said of the tributaries of the Vistula, and of a part of the Warta. The regu-

lation of the mountain torrents and streams flowing into the Vistula, Dniester, Prut, and Czeremosz is necessary not only in order to diminish the danger of floods, but also to exploit the large reserves of water power available. The Prypeć and its tributaries go to form a separate complex which, owing to the very low gradient and the difficulties of outflow, has transformed large stretches of the Province of Polesie into marshland and swamp.

The work done in Poland so far in order to facilitate inland navigation comprises the following: the existing natural and artificial waterways, destroyed or damaged by long neglect and military operations during the War, are being brought to a state of utilization; a large-scale plan of regulating the waterways has been taken in hand. The rate of progress made in these works has been and is strictly dependent upon the sums provided for in the budget; these sums have of necessity been small, and during the period 1924/25–1934/35 amounted in all to rather less than £6·2 millions, that is to say, on the average £0·6 million yearly. How insufficient this sum is can be best seen from the fact that a sum of about £1,000,000 yearly is needed for works upon the Vistula alone in connexion with a modestly laid out twenty-year plan. The aggregate cost of regulating the Vistula has been estimated by the Committee

of Experts of the League of Nations at approximately £20 millions.*

The minimum programme of hydraulic works in Poland foresees the regulation of about 1,250 miles of navigable waterways, the drainage of an area of about 1,250,000 acres, and dike-works for protecting an area of about 175,000 acres against floods.

The most essential works awaiting execution will require about £32·5 millions. This figure is calculated to cover the cost of the following three groups of investment works: (1) very urgent works to be carried out during the five-year period 1936–40 from State funds at a total cost of £6 millions; (2) further investment works connected with the five-year plan, constituting extensions of works estimated for as above, and which can be carried out simultaneously provided funds are available to the extent of £8·5 millions; (3) investment works which should be carried out during the following ten years (1941–50), and which would cost about £18 millions, and serve to produce 200 million kWh of electricity per annum.

The most important works covered by the plan in question are the following:

* See *Rapports du Comité d'Experts mis à la disposition du Gouvernement Polonais par la Société des Nations sur le programme d'établissement des voies navigables en Pologne, l'utilisation des débouchés maritimes et des voies d'accès à ces débouchés par le trafic charbonnier.*

(1) The construction of reservoirs on the Carpathian tributaries of the Vistula at Porąbka and Rożnów in order to diminish the danger of floods, to supply hydraulic energy, and to raise the navigability of the rivers (cost: £6·5 millions). Some of these works were effected in 1936–37. The dam and retention reservoir at Porąbka were completed in December of 1936. A hydro-electric plant with an installed power of 200,000 kW is to be completed at this point during the course of 1938. The works at Rożnów are far advanced and comprise the construction of a dam on the Dunajec river, a retention reservoir of 280 million cubic metres capacity, and a 50,000-kW hydro-electric plant. This part of the scheme is already in course of realization. Independently of these works, it is planned to build a hydro-electric plant on the Dunajec at Czchów with an installed power of 10,000 kW. Plans are now in course of preparation for the construction of a large dam on the River San at Zabrodzie, in connexion with which a 200-million cubic metre retention reservoir and a 30,000-kW hydro-electric plant are also to be built. A reservoir and hydro-electric plant are also to be built at Kozłowa Góra on the Brynica (Upper Silesia) and at several other points in the country.

(2) Regulation of rivers; the most pressing

works are those on the Vistula, necessary for navigation and for land improvement operations, as also to counteract floods (generally recognized as the most pressing and important works to be done); regulation of mountain torrents and Carpathian tributaries of the Vistula and Dniester, as an essential part of the regulation works for navigable rivers, and the construction of reservoirs; the regulation of the lowland tributaries of the Vistula (the Bug, Narew, Pilica, Wieprz, and Nida rivers); in addition, the regulation of the Niemen, Prypeć and their tributaries, and the regulation of the Warta and other waterways in western Poland.

(3) Construction or improvement of river ports on the Vistula at Warsaw, Płock, Włocławek, and Puławy.

(4) Building of new and improvement of old canals over a total length of 302·5 miles; two important canals planned are: the Kamienny Canal (under construction) which will join up the Wołyńian stone quarries with the Vistula river system, thus creating a cheap water route for the transport of materials necessary for road construction, and the Węgływy (or Coal) Canal, which will connect the coalfields through the Warta and Lake Gopło with the Vistula near Bydgoszcz, thus making it possible to transport coal by water to the seaports.

(5) Construction of a canal from the Bydgoszcz

Canal to the Port of Gdynia, thus linking up the Vistula with that port direct.

The four-year investment programme decided upon in 1937 introduced certain modifications of these plans, without, however, changing their main features.

Naturally, the execution of this highly important programme of waterway construction could be accelerated if foreign capital would take an interest in the proposition. The author considers that this capital could only appear in the rôle of a contractor undertaking the construction of certain works ordered by the authorities, and accepting payment in the form of long-term obligations of the State; in some cases, however, it should be possible to combine the rôle of a contractor with that of a concessionnaire (e.g. in connexion with the operation of a new waterway or port, in utilizing water power made available by the regulation of rivers, etc.).*

The Porąbka and Roźnów schemes are being executed in part with medium-term credits by Soc. Polono-Française de Travaux Publics, Warsaw, Soc. Française de la Régie Générale de Chemins de fer et de Travaux Publics à Paris, and Soc. des Grands Travaux de Marseille.

* An interesting, though somewhat out-of-date table, giving data on the most urgent works, their cost, and an estimate of their yield and profitability (in many cases considerable yields are foreseen) is given on pp. 184-189 of the League of Nations publication, *Travaux publics nationaux* (Geneva, 1935).

(2) TELEPHONES AND TELEGRAPHS

It is hardly necessary to dwell upon the great importance of a satisfactory system of telegraphs and telephones for the economic development of a country. Much has been done in this field by the Polish Government during the last few years, but much still remains to be done.

The number of telephone apparatus installed in Poland, it is true, rose from 60,000 in 1922 to 245,000 in 1936; the latter figure is, however, still far from sufficient, as can be seen from the following tables:

<i>Country</i>	<i>Miles of Telegraph Lines per 100 Square Miles of total area in 1931</i>		
Poland	10·5
Czechoslovakia	24·2
Italy	38·1
Germany	65·0
France	66·0

<i>Country</i>	<i>Number of installed Telephone Apparatus in 1935 (in Thousands)</i>	<i>Number of installed Telephone Apparatus per 1,000 Inhabitants in 1935</i>
Czechoslovakia	190	12
Poland	232	7
Belgium	340	41
Sweden	628	101
France	1,441	34
United Kingdom	2,551	54
Germany	3,270	49

Source: *Statistical Year-Book of the League of Nations*, Geneva, 1936.

Mention was made on pages 95 and 106 of the

realization of the scheme for extending the network of telephone lines on the basis of a contract with English and Swedish capital. In addition, it is planned during the next six years to build and erect a number of automatic telephone exchanges capable of serving about 45,000 telephone apparatus, and to extend inter-urban connexions at a total cost of about £2 millions.

The plan of extending the network of telephone lines prepared in 1927 envisages the construction of about 2,150 miles of underground trunk lines during the course of eight to ten years, the cost of the works having been estimated at about £6 millions. The first part of the plan has already been executed (the Warsaw, Łódź, Katowice, Cieszyn, and Cracow line, 323 miles long). The Warsaw, Gdynia, and Danzig line with a branch-line to Bydgoszcz (a total length of 280 miles) and the Warsaw-Sandomierz-Lwów line are in course of construction. Further works planned in future include the laying of a line connecting Warsaw with Wilno and Baranowicze (or with some other frontier points) at a total cost of about £1·5 millions. These lines will be of service in facilitating inter-urban transit communication. The improvements in the telephone service will likewise make it necessary to construct a number of buildings at the cost of about £0·6 million.

The acceleration of the gradual realization of

these plans with the help of foreign capital would be theoretically possible either by extending the system of concessions of the type held by the Polish Telephone Joint-Stock Co. (see p. 106), or by turning other Government funds to use for financing the works.

(3) ELECTRIFICATION

The enormous significance of the production of cheap electric energy for raising efficiency in all branches of production and lowering costs is quite obvious. The cheap transmission of electric energy making for low-priced lighting and power current is of no less importance than bringing passenger and goods transport, telegraphic and telephone communication to a high pitch of perfection. It is for these reasons that not a single country, in the face of insufficient own accumulated capital, has hesitated to accept foreign capital in order to accelerate the process of electrification. It will suffice to recall that foreign capital took an important share in financing the construction of central electric power-plants in Italy, Austria, Spain, and in all the republics of South America, etc.

Poland possesses highly favourable conditions for carrying out the electrification of the country. There are enormous deposits of coal in the south-western parts of the country,

important supplies of petroleum in the south-east, and considerable reserves of hydraulic power which so far have been used to only a very small extent.

WATER POWER IN CERTAIN COUNTRIES (1935)

(*In Million Horse-power*)

<i>Country</i>			<i>Estimated Reserves of Water Power</i>	<i>Utilized Water Power</i>
France	..	..	5·4	4·3
Sweden	..	..	5·0	1·8
Poland	..	..	3·7	0·1
Germany	..	..	—	2·8
Austria	..	..	1·7	0·9
Czechoslovakia	..	..	1·0	0·2

Source: *Statistisches Jahrbuch für das Deutsche Reich* (1936).

Apart from these fundamental sources of energy in Poland there are also various districts where lignite is to be found, and, scattered all over the country, deposits of peat.

The electro-technical industry in Poland has been steadily progressing during the last ten years; directed by expert Polish engineers and backed by the experience of the great industrial concerns of other countries, it is already able to execute a considerable part of the works necessary for electrification. Poland still lacks factories producing steam turbines, but probably this deficiency will soon be made good.

In spite of all these conditions essential for the

development of electricity, Poland occupies one of the lowest places in Europe as a producer of electrical power.

Country	Output of Electrical Power, in 1,000 Million kWh*		Consumption of Electrical Power per Inhabitant, in kWh (Average in 1932-34)
	1935	1935	
Germany	..	36·7	408
France	..	15·8	348
Sweden	..	6·9	874
Belgium	..	4·5	480
Czechoslovakia	..	2·9	180
Poland	..	2·6	74
Austria	..	2·6	354

At the request of the League of Nations, the Polish Ministry of Public Works prepared, in 1931, a plan for the extension of the system of electric-power plants in Poland, whereby the present economic conditions of the various parts of the country and the probable needs during the next few years were fully taken into consideration. As an outcome of these studies, two main areas were set up: the central and western territories of the Republic and the rest of the land. The former area, in view of the development of its industry and the density of its population, is suitable for the exploitation of large central thermal or hydro power-stations, concentrated in the larger towns of western and northern Poland, in the coalfields district, and

* According to *Statistical Year-Book of the League of Nations, 1936-37*, Geneva, 1937.

upon the banks of the mountain and hill-country rivers (the Soła, Dunajec, and San rivers). Upon this area it is advisable to avoid the construction of small local stations. The economic interests of the country require, on the other hand, that some power-plants, even smaller ones at a pinch, be erected at various points in the second area, with certain privileges granted to the larger ones using local sources of energy (peat, lignite, hydraulic power, and wood).

Fully appreciating the importance of electrification for the country, the Polish Government issued a law in 1922 (*Journ. of Laws of the Rep. of Poland*, 1922, No. 34, item 277) defining and regulating the terms and conditions upon which concessions may be granted to private enterprises. The concession rights granted are in respect of the production, transformation, transmission and distribution of electric current for gainful purposes (plants producing electricity for their own use, or selling current only from time to time and not as a regular practice, are excluded from consideration). Real estate necessary for the construction and maintenance of electric-power plants may be acquired by compulsory dispossession.

The electric-power plants become the property of the State after the lapse of the concession period upon refund of the unamortised part of the cost of installations incurred during the last

few years of the life of the concession. The State may be empowered to transfer its right of taking over such plants to local government boards. Pre-War concessions remain in force provided their scope has not been changed; otherwise, the power companies are obliged to secure concessions from the Polish authorities. Concessions granted for an unlimited period of time expire in 1972 upon the basis of the law itself.

In accordance with a resolution of the Economic Committee of the Cabinet passed in 1925, concessions are granted upon the following main terms. The duration of a concession in respect of a thermal electric-power plant is fixed at from twenty-five to forty years, and in the case of hydro-electric plants at a maximum of sixty years. The concessions foresee maximum rates and discounts for current. These may vary according to the fluctuations in general economic conditions, and must take into consideration changes in the prices of coal, labour, and of gold. The concessionnaire is obliged to pay to the Treasury 1½ per cent of his gross receipts, as also part of the profits exceeding a fixed net figure of revenue.

It was in order to extend further facilities for the electrification of the country that the decree of October 27, 1933 was passed (*Journ. of Laws of the Rep. of Poland*, No. 85, item 633), the

following being the more important provisions contained in this measure for the encouragement of electrification.

Corporate and legal entities are granted the privileges and facilities enumerated below provided that, within the time limit agreed upon, they bind themselves to construct and operate productive electric-power plants generating a minimum power of 10,000 kW, and if the source of power is peat, lignite, natural gas, or hydraulic power, at least 3,000 kW (public utility plants in the eastern provinces are not limited by any minimum power figure), or that they bind themselves to construct and operate electric transmission lines with a tension of at least 30,000 volts (6,000 volts in the eastern provinces). Relief measures are also foreseen for plants which extend their installations to meet the above requirements. The privileges offered are the following:

(a) Exemption from Stamp Fees payable on founders' stock capital expended for the purchase or acquisition of real estate or installations.

(b) Exemption from State and local government duties as alienation fees on real estate necessary for the execution of the electrical rights secured.

(c) Exemption from all direct State and local government taxation, and from local government

supplements to direct State taxation (excluding the local government supplement to the Land Tax) in respect of the property covered by the rights granted.

(d) Exemption from payment for utilization of State land through which electric-power lines and cables pass.

(e) Priority of purchase of land necessary for the execution of the concession rights and accruing from the execution of the Land Reform Scheme.

(f) Priority of purchase of building material and fuel (including their manufactured forms) from the State.

(g) Priority in securing permits for the utilization of water as a source of energy.

The relief measures enumerated above can be granted for a period of ten years and in the central and southern areas up to one of fifteen years. The decree does not apply to the Province of Silesia.

There is every reason to believe that the application of these measures will greatly accelerate the electrification of the country.

A proper understanding of the importance of electrification exists not only on the part of Government authorities, but also of the community in general. Thus, considerable progress has been made during the last fifteen years, thanks to the investment of domestic capital by itself,

or in collaboration with foreign capital. The number of electric-power plants rose from 835 in 1925 to 2,650 in 1936, whilst the annual output of current over the same period rose from 1,800,000 kWh to 3,100,000 kWh. All this, however, could satisfy only a small fraction of the actual needs of the country.

Of the various large-scale schemes for the electrification of the country with the help of foreign capital, mention will only be made of a plan presented to the Polish Government in 1929 by Messrs. W. A. Harriman and Co. Inc., of America.

The plan envisaged the following series of works:

(a) Electrification of sixty-nine districts in the Provinces of Warsaw, Lódz, Kielce, Lublin, Kraków, and Lwów, excluding districts covered by provincial exclusive concessions, but with the obligation of furnishing current to the respective concessionnaires upon demand: these districts contain 105 towns (with an average population of 4,100 inhabitants), all of which would receive a supply of electricity.

(b) The construction of a hydro-electrical power station on the Dunajec with a minimum power of 40,000 h.p. for the first series of works, and one of 70,000 h.p. for the second.

(c) The construction of a thermal electric-power plant with a power of 30,000 h.p. in the

coalfield district working in conjunction with a hydro-electric power station.

(d) The construction of transmission and distribution lines with a tension of over 100,000 volts, and a length of 281 miles in the first phase of the works, and 468 miles in the second.

(e) The electrification, during the course of the first five years of the concession period, of all towns with over 5,000 inhabitants, and during the subsequent five years all towns with a population of over 3,000.

(f) The concessionnaire would bind himself to invest 25 million dollars in these works during the first ten years, and 1·5 million dollars yearly thereafter up to the total of about \$100 millions, this figure being considered as the maximum likely to be required.

In exchange for undertaking these obligations, Messrs. Harriman & Co. demanded the exclusive right of producing, transmitting, and selling electric current upon the area of the aforementioned sixty-nine administrative districts.

The scope of activities of electric-power stations already working was not to be extended upon the area covered by the exclusive rights of Messrs. Harriman & Co. In addition, the concessionnaire demanded far-reaching taxation privileges and exemptions. The concession

would be granted for the term of sixty years with the right of premature liquidation after the thirty-fifth year.

Messrs. Harriman & Co. suggested that the electrification of the individual districts should be made dependent upon the existence of a minimum demand of $0\cdot3$ kW per metre of transmission line at any given time upon the total electrified area embraced by the concession.

As already stated, the sums needed for the execution of the necessary works represented the maximum ones not likely to be surpassed. The American character of the electrification company was to be maintained at least during the first twenty-five years of the concession.

The plan was carefully examined by the Polish Government, but the offer was refused, as it was considered that the terms demanded by Messrs. Harriman & Co. were too onerous. None the less, it furnishes proof that the electrification of Poland can be of interest to foreign capital. In the given case, a large part of the plan has already been carried out without the participation of foreign capital.

The total sum of foreign capital invested in electrification in Poland, in stock capital and reserves, comes to £6·2 millions (of which about £1·7 millions represent post-War concessions). This amount is relatively insignificant compared with the sums invested in other

countries, as, for instance, in the Argentine, where the foreign stock and bond capitals invested in only three of the largest electric-power plants (Cia. Hispano-Americana Electricidad, Buenos Aires; Atlas Light and Power Co., Ltd.; Soc. D'Electricité de Rosario) come to about £20 millions.

(4) GRAIN ELEVATORS

A rationally extended system of grain elevators can contribute to the more efficient service of the corn trade. Its importance for an agricultural country, such as Poland, has been readily realized ever since the conclusion of the War.

State commissions have decided on three types of elevators as needed in Poland: agricultural zone elevators, standardization, and export elevators. According to the present plans, zone elevators would be built at the towns of Biała Podlaska, Jędrzejów, Buczacz, Puławy, and Zamość, the capacity of each elevator to be from 500 to 1,000 tons.

Standardization elevators are to serve for the proper sorting of grain both for export purposes and for regulating the supply on the home market. Their capacity should be from 10,000 to 15,000 tons. Such elevators could most advantageously be erected at Toruń and at Oświęcim, with smaller units at Kruszwica, Kutno, and Leszno.

The Elewatory Zbożowe w Polsce S.A. (96 per cent of its shares are held by the Bank of Poland), has in recent years constructed elevators at Ostrowiec, Sokal, Kutno, and Kruszwica. The State Industrial Grain Works have built an elevator at Lublin, and a small elevator has been put up by the Maków Mazowiecki local government board. A large elevator has also been erected at Gdynia.

The construction of grain elevators in Poland should be of interest to foreign capital in view of the considerable home trade in corn, and also in view of the probability of foreign trade in cereals becoming more lively in the future.

(5) COLD-STORAGE PLANTS

There cannot be the slightest doubt that cold storage is a matter of paramount importance for Poland as a country with a large export trade in meat and eggs, expanding fishery and fruit-growing industries, etc. The investment of money in collaboration with foreign capital for the construction of refrigerating plants is therefore fully justified as an economically sound measure.

The cold-storage facilities at present existing in Poland are quite inadequate. There were only 650 refrigerating plants in the country in 1936, that is to say, about twenty plants per million

inhabitants. In other countries the corresponding figures are much higher; thus, there were 290 such plants in Denmark per million inhabitants, about 80 in Germany, and about 50 plants per million of population in Holland. Of the existing plants in Poland 26 per cent are used for the storage of meat, 16 per cent for dairy produce and eggs, 14 per cent for chemical industries, etc. The largest number of refrigerating plants are to be found in the western parts of the country: 78 in the Province of Pomorze (Polish Pomerania), and 100 in Poznania. The railways operate about 560 cold-storage waggons, but this number is likewise insufficient.*

The construction of cold-storage plants in Poland has been proceeding rapidly of recent years, even without the participation of foreign capital. It is to be expected, however, that when the period of artificial barriers in the way of foreign trade comes to an end, the development of Poland's export trade in agricultural and breeding commodities (whose natural conditions of expansion are now being held up) will create a powerful supplementary demand for cold-storage facilities; foreign capital will then find this a profitable field of investment.

* See also Leparski, A.: *Całodnictwo w Gospodarstwie Narodowym Polski* (Cold-Storage in the National Economy of Poland), Warsaw, 1930.

(6) OTHER OPPORTUNITIES

Apart from the foregoing types of investment in Poland, which offer the possibility of rationally placing very important sums in the productive branches of Polish economic life during the next ten years, there are also other chances of applying foreign capital in fields which can be of interest to foreign capitalists in spite of the fact that the Polish authorities do not attach so much importance to them as to those already discussed herein. A few examples will now be given of such opportunities.

(a) Municipal Public Utility Works and Needs.—There are many cities and towns in Poland which do not possess adequately planned and constructed systems of waterworks, sewerage, gasworks, electric-power supply, market halls, urban passenger traction facilities, etc., although since Poland regained her independence, very much has been done to raise the standard of municipal economy, which has been neglected for so many decades especially in the former Russian part of Poland.

Gasworks.—There were 102 gasworks operating in Poland on January 1, 1936 (excluding six working on natural gas); these produced about 5,400 million cubic feet of gas in 1936.

In spite of the considerable progress made during the last twenty years, and that without the aid of outside capital, much remains still to

be done. Thus, the average consumption of lighting gas per inhabitant in 1936 came to 142 cubic feet in Poland as against about 1,581 cubic feet in Germany. The investment needs of the country in this respect are represented by the extension of existing and the building of new gasworks, for which conditions in Poland are most favourable in view of the abundance of suitable coal.

Waterworks and Sewerage Systems.—According to the data of the Union of Polish Towns, there were 184 waterworks in Poland, which in 1933 furnished water to about 250 localities (including ninety in Polish Upper Silesia). The number of waterworks which are not only properly constructed, but which also function well, is in reality much smaller. The status of these waterworks in relation to the groups of populations served is as follows:

Population per Town	Number of Towns having Waterworks	Number of Towns having properly planned Waterworks
Over 100,000	11	10
75,000 to 100,000	3	3
50,000 to 75,000	8	5
25,000 to 50,000	30	15
20,000 to 25,000	17	5
15,000 to 20,000	18	8
10,000 to 15,000	65	8
5,000 to 10,000	135	18
2,000 to 5,000	230	11

It follows from the above that out of 517

towns with a population of from 2,000 to 100,000 inhabitants and over, there were in 1933 only 83 towns which had properly equipped and planned waterworks.

The construction of new waterworks has been taken in hand in twenty-three towns during the last two years, and these will raise the number of towns with a satisfactory water supply to 106. Out of thirty-seven climatic resorts and spas, only five have properly constructed and equipped waterworks.

A few figures on waterworks in other countries will suffice to show how deficient Poland is in respect of this type of urban installation. In France 81 per cent of the towns have waterworks, 100 per cent of the towns in Switzerland, and 70 per cent of the towns in Holland. The data for 1928 indicate that there were 1,799 waterworks in Czechoslovakia serving 1,899 towns and hamlets, the length of water-mains amounting to 6,690 miles (as against 1,870 miles in Poland). The number of waterworks in Germany was 4,000 in 1932, with water-mains totalling 35,000 miles in length. There are 240,000 inhabitants in Poland per waterworks.* The corresponding figures for Czechoslovakia, Germany, and France are 8,200, 16,300, and 5,000 inhabitants respectively.

* It must be borne in mind that 61 per cent of the population are rural.

The sewerage systems of the Polish towns likewise leave much to be desired. Out of a total of 603 towns and cities, only 152 have a satisfactory system of sewers. Of these only thirty-two have a more or less rationalized system of cleansing sewage, and only gratings are used for this purpose in twenty-three towns; the remaining towns do not apply any methods of cleansing sewage.

The requirements of towns with over 20,000 inhabitants in respect of water supply and sewerage systems are as follows.

In order to provide these towns with water-works and sewerage systems it will be necessary to lay down about 550 miles of water-mains and approximately 440 miles of sewers.

The installation of sewers and water-mains in all the above-mentioned towns would require a total of £6·5 millions. Over and above these works, the extension of existing sewerage and water-main systems in the various towns requires an additional expenditure of about £7 millions.

As already mentioned herein, important urban sewerage systems have been constructed with the help of American capital, i.e. the Ulen & Co. local-government loans, details of which are given on pages 86, 126-129. Of course, these works account for only a small part of those necessary and there is still an enormous field

for the investment of capital in this so important domain for the health and well-being of the urban population.

Tramways, Motor-bus and Suburban Railway Services.—Of the twenty-five largest cities and towns in Poland only eleven have a tramway system; five of these towns are upon territory formerly held by the Germans (Poznań, Bydgoszcz, Toruń, Grudziądz, and Inowrocław), four in southern Poland (Lwów, Cracow, Tarnów, and Bielsko), and only two (Warsaw and Łódź) upon territory formerly under Russian rule. There is a lack of tramway services (especially with properly developed suburban lines) in the following towns: Wilno, Kalisz, Tarnopol, Przemyśl, Piotrków, Siedlce, Kielce, and Grodno.

The growth of suburbs around the larger cities raises problems of communication which often make it necessary for towns to introduce motor-bus and not electric tram services within the city boundaries. This is being done in a number of cities and towns in the Republic of Poland.

There are suburban electric railway lines serving districts around municipal centres only in the region of Warsaw, Łódź, and the Silesian-Dąbrowa mining district with a total length of 138·7 m. exploited by private companies; in addition, in the Warsaw region there are privately exploited motor and steam traction lines

210 km. in length and a county railway about 38 km. long. Finally, in Poznania and Pomorze there are several lines of county suburban railways which have an aggregate length of about 900 km. Apart from the three industrial centres mentioned above, the system of local suburban lines is most developed in western Poland.

The following of the largest cities are served by motor-bus suburban lines: Warsaw, Gdynia, Wilno, Cracow, Poznań, Bielsko-Biała, Katowice, and Lwów.

According to the official report of the Association of Communication Companies in Poland, the status of the various lines in 1937 was:

Length of lines

Tramway systems	183 miles
Suburban railway systems	865 miles
Motor-bus systems	15,187 miles

Rolling stock (cars)

Tramways	1,765 units
Motor-buses	1,436 units

It can be accepted as certain that these forms of communication in Poland are marked by many unsatisfied needs.

Summary.—The most urgent needs of thirty-four of the largest towns have been examined in an inquiry effected by the Union of Towns; according to plans already prepared, an expenditure of £35 millions will be necessary. Of this aggregate sum, £13·8 millions will be

needed for waterwork and sewer construction, £7 millions for the construction of electric-power plants, £0·6 million for the building of gas-works, £5·1 millions for the construction of slaughter-houses, roads and streets, dwelling-houses, etc., and £4·1 millions for the construction of other public utility institutions (school-houses, hospitals, etc.).

The participation of foreign capital in these or similar works is possible either on the basis of purely financial loans, in connexion with the execution of certain works, or on the basis of exploitation concessions. The foregoing cases should be regarded as examples current at the time of writing: they are of course liable to change as plans are amended or carried out with or without the help of foreign capital.

The Polish Government exercises caution when giving its approval to transactions between foreign capital and local government boards; this caution is necessary in order to avoid the undertaking of obligations exceeding the paying ability of the urban population affected, the Government being bound to pay due regard to this as a supervisory body over the municipalities.

(b) *Industry*

The participation of foreign capital in the larger Polish industrial undertakings is already fairly considerable. The further influx of foreign

capital (apart from that used for the development of various goods credit operations or for improving the technical installations of existing enterprises in which foreign capital is interested) can on the whole be considered as desirable in certain branches of industrial production which so far have not been adequately developed. This refers particularly to industries based upon foreign inventions and patent rights (such, for instance, as certain branches of the chemical, cinema, electrical, and motor-car industries, etc.).

The participation of foreign capital is especially desirable for Poland in those branches of industry which may tend to reduce imports, and thus compensate for debit items in the balance of payments arising out of interest and sinking fund payments to foreign capitalists.

(c) Residential Construction

Doubts can arise as to the advisability of foreign capital engaging in the construction of dwelling-houses. None the less, residential building by foreign capital might prove an attractive proposition in categories of construction which require special qualifications, such as the building of hotels. The Polish Government quite rightly does not seek to interest foreign capital in this field, and merely encourages domestic capital to build houses by

freeing newly erected buildings from taxation for a number of years, by deducting sums expended on building from income tax assessments, and so on (*Journ. of Laws of the Rep. of Poland*, 1926, No. 88, item 786). It also grants convenient building credits through the National Economic Bank; over 84,000 dwellings were built during 1929-36 with the help of such credits.

It is thanks to these exemptions and other measures of encouragement that building operations have multiplied during the last few years to such an extent that many millions of domestic capital have been invested in residential construction every year. It can be confidently expected that as the general economic situation improves building activities will increase still further, and that Polish capital will be fully able to cope with the housing needs of the country.

* * *

The above examination of investment possibilities in Poland does not of course exhaust all those which might be of interest to foreign capital; the broad fields of commerce and trade, of banking and of private insurance have not been touched upon, the survey being restricted to those possibilities which, under present conditions, appear to be of the greatest interest to Poland, and offer the greatest attraction to foreign capitalists.

CONCLUSION

IT is of common knowledge that the degree in which capital can engage is everywhere in the world closely dependent upon the existing political and economic relations, and upon an enhanced feeling of security in general. It is hoped that a more desirable state of affairs will prevail in the world, and more particularly in Europe. But even under existing conditions the author considers that this necessarily incomplete study will be of general interest in view of Poland's rapidly growing importance in the economic and political structure of Europe. The interest shown by foreign capital in Poland up till now is symptomatic of the stabilization of that country's political and economic situation, whilst a survey of present and past transactions brings out the potential value of the possibilities which Poland still offers to foreign capital.

It is evident, too, that the collaboration of foreign capital in raising the economic level and prosperity of the Republic of Poland must automatically contribute to increase general prosperity in Europe. For a growth in the prosperity of a nation of thirty-four million people in the very heart of the Continent must

APPENDIX A
FOREIGN CAPITAL IN POLAND

(Status on January 1, 1933, in Million Zlotys)

Creditor Country	INDEBTEDNESS OF THE STATE							Local Government Loans	Mortgage and other Bond Issues of Mortgage Banks and of Industrial Enterprises	Bank Indebtedness	Goods Credits	Cash Credits	Total of Columns IX-XII	Total of Columns VII and XIII	Foreign Capital in Polish Enterprises	Stock and Reserve Capital of Foreign Joint Stock Companies||	Total of Columns VIII and XIV, XV, XVI										
	Arising out of the World War and its Results		Bond Issues	State-owned Banks	Goods and Cash Credits	Arising out of Concessions granted	Total of Columns I-VI																				
	Towards other Governments	Liquidations																									
	I	II	III	IV	V	VI	VII																				
Total	2,873	325.	1,032	92	20	322	4,764	261	336	292	138	1,689	2,455	7,219	1,751	326	9,557								
Austria	—	—	—	—	—	—	—	2	4	31	6	—	41	41	61	8	112								
Belgium	—	—	36	—	—	—	36	—	3	10	5	—	18	54	176	18	248								
Czechoslovakia	29	—	—	—	—	—	29	3	1	2	7	—	10	39	23	3	68								
Denmark	1	—	—	—	—	—	1	—	—	—	2	—	2	3	—	—	3								
France	805	—	19	8	—	138†	970	19	160	56	9	—	225	1,195	428	218	1,860								
Germany	—	—	—	—	—	—	—	4	13	72	28	—	113	113	411	26	554								
Great Britain	139	—	47	—	19†	—	205	28	52	56	12	—	120	325	103	10	466								
Holland	7	—	66	—	—	—	73	—	9	19	5	—	33	106	49	—	155								
Italy	17	—	167	—	—	—	184	—	—	3	5	—	8	192	—	4	196								
Norway	26	—	—	—	—	—	26	—	—	—	1	—	1	27	—	—	27								
Sweden	10	—	—	—	—	284§	294	14	58	5	2	—	65	359	40	—	413								
Switzerland	—	—	53	—	1||	—	54	9	1	13	7	—	21	75	49	—	133								
U.S.A.	1,839	—	644	84	—	—	2,557	179	19	12	17	—	48	2,662	384	34	3,212								
Not specifiable	—	325*	—	—	—	—	325	3	16	13	32	1,689	1,750	2,615	27	5	2,110								

* Caisse Commune.

† Electrification loans and State Road Fund.

‡ Silesia-Gdynia Railway.

§ Match Monopoly.

|| State Road Fund.

¶ Including credits granted by main offices.

APPENDIX B
FOREIGN CAPITAL IN POLAND, 1936-37
(In Million Zlotys)
Approximate Orientational Date according to the Latest Published Figures

Creditor Country	STATUS ON APRIL 1, 1937. INDEBTEDNESS OF THE STATE							STATUS ON JANUARY 1, 1936										
	Arising out of the World War and its Results		Bond Issues	State-owned Banks	Goods and Cash Credits	Arising out of Concessions granted	Total of Columns I-VI	Local Government Loans	Bond Issues of Credit Associations and Industrial Enterprises	Bank Indebtedness	Goods Credits	Cash Credits	Total of Columns IX-XII	Foreign Capital in Polish Enterprises	Stock and Reserve Capital of Foreign Joint-Stock Companies¶	Total of Columns VIII and XIII, XIV, XV		
	Towards other Governments	Liquidations																
Total	I,837	325	559	68	194	240	3,223	212	273	276	95	1,154	1,798	1,692	301	4,003
Austria	—	—	—	—	—	—	—	—	7	4	—	11	58	7	76	
Belgium	—	—	20	—	2	—	22	—	—	8	3	—	11	186	17	214
Czechoslovakia	21	—	—	—	—	—	21	3	—	4	4	—	8	23	2	36
Denmark	1	—	—	—	—	—	1	—	—	—	1	—	1	3	—	4
France	571	—	10	8	—	68‡	657	16	153	75	5	—	233	413	206	868
Germany	—	—	—	—	—	—	—	5	17	45	14	—	76	327	24	432
Great Britain	120	—	32	—	186†	—	338	23	20	55	13	—	88	86	5	202
Holland	1	—	36	—	—	—	37	—	8	11	3	—	22	52	—	74
Italy	11	—	90	—	—	—	101	—	—	18	3	—	21	10	—	31
Norway	13	—	—	—	—	—	13	—	—	—	1	—	1	—	—	1
Sweden	5	—	—	—	2	172§	179	14	53	3	2	—	58	41	—	113
Switzerland	—	—	28	17	3||	—	48	6	—	11	3	—	14	76	—	96
U.S.A.	1,094	—	343	43	1	—	1,481	111	7	4	13	—	24	371	31	537
Not specifiable	—	325*	—	—	—	—	325	34	15	35	26	1,154	1,230	46	9	1,319

* Caisse Commune.

† Electrification loans and State Road Fund.

‡ Silesia-Gdynia Railway.

§ Match Monopoly.

|| State Road Fund.

¶ Including credits granted by main offices.

APPENDIX C
POLISH GOVERNMENT FOREIGN BOND ISSUES

Loan Issue	Issue Date	Laws and Decrees in respect of Loan Issue	Initial Sum	Issue Price	Interest Rate	Mode of Amortisation	Redemption Date	Premature Redemption after	Object of Loan	Fiscal Agent	Stock Exchanges	Subscription Offices	Special Guarantees	Gross Receipts of Source serving as Guarantee (in million zlotys)	Taxation of Bonds and Interest Coupons	Status on April 1937 (in Currency of Issue)
Dollar Loan	1920	<i>Journal of Laws of the Republic of Poland</i> , No. 29, item 252 (1919) Law of March 22, 1919	\$19,574,500	100	6 per cent payable half-yearly on April 1st and October 1st	Lump sum at maturity	April 1, 1940	April 1, 1930, at parity	General needs, in connection with Bolshevik War and reconstruction	National City Bank of New York	New York	Polish Ministry of Finance direct	Fiduciary issue	—	Exempt from all present and future taxation and levies	\$19,574,500
Italian Tobacco Loan	1924	<i>Journal of Laws of the Republic of Poland</i> , No. 25, item 257 (1924) Decree of the President of the Republic, dated March 13, 1924	Lire— 400,000,000	500	7 per cent payable half-yearly on May 1st and November 1st	Half-yearly drawings, or purchase in excess of the amounts foreseen in the amortisation plan, beginning in 1929	November 1, 1944	November 1, 1930, by drawings at 550 per 500, and from November 1, 1934, at 525 per 500 and from November 1, 1939, at parity	For productive objects, chiefly for the establishment and operation of the Polish State Tobacco Monopoly by the purchase of private factories	Banca Commerciale Italiana, Milan	Milan	Banca Commerciale Italiana	Mortgage on the property of the State Tobacco Monopoly and its receipts. The Italian Government guarantees the service of the loan from the reserves created by the debtor, used for the purchase of Government bonds to be amortised before 1944	Mortgage deed on Monopoly's real estate, machinery and equipment 69·5 Receipts of the State Tobacco Monopoly in 1936-37 470·0 539·5	Exempt from all Polish taxation and levies. The Polish Treasury assumes all present and future levies assessed upon bonds in Italy, and particularly the Stamp Fees on foreign securities, as also the Tax of 15 per cent on interest coupons	Lire— 225,458,000
Dillon Loan	1925	<i>Journal of Laws of the Republic of Poland</i> , No. 22, item 154 (1925) Law of March 5, 1925	\$35,000,000	95	8 per cent payable half-yearly on January 1st and July 1st	Half-yearly drawings during 25 years, i.e. at the rate of 4 per cent per annum	January 1, 1950	January 1, 1937, at 105 per 100	Building of railway lines, and formation of State Economic Fund for productive economic aims and building whose yield would cover interest and amortisation costs	Dillon, Read & Co., New York	New York	Dillon, Read & Co.	Receipts of the Polish State Railways and from Sugar Excise Tax	Receipts of the Polish State Railways in 1936 833·0 Receipts from Sugar Excise Tax in 1936-37 .. 132·0 Total 965·0	Exempt from all present and future taxation and levies	\$18,200,000
Stabilisation Loan	1927	<i>Journal of Laws of the Republic of Poland</i> , No. 88, item 789 (1927) Decree of the President of the Republic, dated October 13, 1927	\$72,000,000 (Gold) \$8,000,000 (Gold)	92	7 per cent. (Both payable half-yearly on April 15th and October 15th)	Drawings at 103, or purchases on the open market. During the first four years 4 per cent of the nominal sum of the loan is amortised; in later years, $\frac{1}{2}$ per cent. more every four years until amortisation rate of 6 per cent is reached	October 15, 1947	December 15, 1937 at 103 per 100	Increase in capital of Bank of Poland; redemption and withdrawal of Treasury notes; redemption of Treasury Floating Debt; formation of State Credit Fund for support of agriculture and aid to State undertakings by the purchase of bonds and securities; construction of railway lines	New York: Bankers Trust Co. London: Chase National Bank Paris: Zürich London: Lazard Bros. & Co.	New York: Bankers Trust Co. London: Chase National Bank Paris: Zürich Amsterdam	New York: Bankers Trust Co. Blair & Co. Inc. Chase Securities Corp. W. A. Harriman & Co. Inc. Marshall, Field, Glore, Ward & Co. E. H. Rollins & Sons Tucker, Anthony & Co. Paine, Webber & Co. Guaranty Trust Co. London: Lazard Bros. & Co. Ltd. Paris: Banque de Paris et des Pays-Bas Banque Franco-Polonaise Holland: Lippmann, Rosenthal & Co. De Twentsche Bank Hope & Co. Warsaw: Bank Handlowy w Warszawie Sweden: Stockholm Enskilda Bank Skandinaviska Kreditaktienbolaget Switzerland: Soc. de Banque Suisse Crédit Suisse	Receipts from Customs Duties	Receipts from Customs Duties in 1936-37 .. 92·0	Exempt from all present and future taxation and levies; in addition, as regards the French allotment, the Polish Government undertakes to assume payment of the Tax on interest coupons to the maximal figure of 25 per cent per coupon	\$37,820,000 £1,220,000

APPENDIX D

FINANCIAL GUARANTEES GRANTED BY THE POLISH GOVERNMENT FOR FOREIGN INDEBTEDNESS

(Status on April 1, 1937)

<i>Debtor to whom Guarantee granted</i>	<i>Guarantee Sum (nominal)</i>	<i>Status on April 1, 1937</i>
City of Kalisz	4,300,000 Swedish Kronor	4,300,000 Swedish Kronor
City of Gdynia	4,000,000 Swiss Francs	2,800,000 Swiss Francs
Land Credit Association of Warsaw	\$1,850,000	\$795,200
GUARANTEES IN RESPECT OF BOND ISSUES:—		
National Economic Bank Municipal Bonds	\$2,464,000 U.S. £1,306,795 os. od.	\$8,134,000 Gold U.S. £1,053,802.34 U.S. £1,024,480 os. od.
Polish Industrial Credit Association of Warsaw, mortgage bonds	£160,000 os. od.	£113,634 11s. od.
Dąbrowa Basin Electric Tramway Co., Ltd., bonds	£275,000 os. od.	£188,726 9s. 4d.
Suburban Electric Railways, Ltd., bonds	1,100,000,000 French Francs	376,585,000 French Francs
Franco-Polish Railway Co., Ltd., bonds	£109,000 os. od.	£109,000 os. od.
Ludwik Geyer Cotton Works, Ltd., bonds	2,000,000 Gold Belgas	2,000,000 Gold Belgas
Suburban Electric Railways of Warsaw, Ltd., bonds		
OTHER GUARANTEES GRANTED BY THE POLISH TREASURY DIRECT:—		
Electric Suburban Railways, Ltd. ..	£119,091 os. od.	£19,386 8s. 4d.
United K. Scheibler and L. Grohman Cotton Mills of Łódź	\$1,000,000 U.S.	\$1,000,000 U.S.
"Polish State Posts, Telegraphs and Telephones," a State enterprise ..	£1,000,000 os. od.	£153,131 2s. 9d.
Peace Foundry, Silesian Mining and Founding Co., Ltd., of Katowice ..	1,700,000 Swiss Francs	1,700,000 Swiss Francs
Poznań Land Credit Association ..	\$575,000	\$575,000
National Economic Bank indebtedness towards Messrs. M. Ballestrem and Messrs. Oberschlesische Eisenbahnbedarfs A.G.	8,500,000 Zlotys	57,900 Zlotys
"Polish State Railways," a State enterprise	£2,000,000 os. od. £5,840,676 os. od.	£2,000,000 os. od. £4,537,134 os. od.
State Road Fund	15,686,938 French Francs 2,104,547.26 French Francs 1,896,117.36 Swiss Francs £87,999 3s. 9d. 260,000 Swedish Kronor	15,686,938.75 French Francs 2,104,547.26 French Francs 1,896,117.36 Swiss Francs £87,999 3s. 9d. 260,000 Swedish Kronor

increase its ability to buy the produce of other countries, and at the same time make it a more efficient supplier of the commodities which it sells to the rest of the world.

APPENDIX E

**STATUS OF GOVERNMENT AND LOCAL GOVERNMENT
FOREIGN INDEBTEDNESS, AND STATE BANK
BONDED FOREIGN INDEBTEDNESS**

(1929-1935, in Million Zlotys)

Year	Government Foreign Indebtedness	Local Government Foreign Indebtedness	State-Bank Bonded Foreign Indebtedness	Total
1929	3,691	229	134	4,054
1930	3,993	222	138	4,353
1931	4,570	267	132	4,969
1932	4,514	261	116	4,891
1933	3,544	217	117	3,878
1934	3,103	197	106	3,406
1935	3,026	183	97	3,306

APPENDIX F

CONVERSION OF STERLING ISSUE OF THE 7 PER CENT STABILISATION LOAN (1927)

THE following offer for a permanent settlement of the sterling issue of the Stabilisation Loan of 1927 was announced by Messrs. Lazard Bros. & Co., Ltd., on December 14, 1937:

"(1) Interest on the bonds will be reduced from 7 per cent to 4½ per cent per annum.

"(2) Interest hitherto payable only in sterling or United States dollars at the fixed rate of \$4·86 to the Pound Sterling will in future also be payable at the option of the holders (as in the case of the dollar issue of this loan) in French Francs in Paris at the buying rate for sight exchange on London on the day of presentation, or in Dutch Florins at Fl. 12·092 to the Pound Sterling, or in Swedish Kronor at Kr. 18·133 to the Pound Sterling, or in Swiss Francs at Swiss Frs. 25·189 to the Pound Sterling.

"(3) Coupons presented for payment on the basis of Florins, Kronor, or Swiss Francs as above will be paid in sterling at the offices of Lazard Bros. & Co., Ltd., at the option of the holder either at the bankers' buying rate on the day of presentation for sight drafts on Amsterdam, Stockholm, or Zürich as the case may be, or at the fixed rates of exchange of Fl. 9·982 to the Pound Sterling, or Kr. 14·836 to the Pound Sterling, or Swiss Frs. 20·609 to the Pound Sterling.

"(4) The due date of the bonds will be extended from October 15, 1947, to October 15, 1967, and the Sinking Fund adjusted accordingly.

"(5) All other conditions, including the security, of the bonds will remain unchanged.

"(6) Coupons due October 15, 1937, not yet paid will be payable on the above basis, but only upon acceptance of the offer as a whole in the manner to be prescribed in due course.

"The effect of paragraphs 2 and 5 above is that interest payments made via the London-Amsterdam, London-Stockholm, or London-Zürich exchanges at the fixed rates stated in paragraph 3 will never be less than £5 10s. per annum per £100 bond. Holders will in fact receive more than that amount if at the time when a coupon is presented sterling stands in any of those centres below the rates given in paragraph 3.

"The Council of Foreign Bondholders and Lazard Bros. & Co., Ltd., have examined carefully the whole position and consider that the terms now offered by the Polish Government are in all circumstances fair, and they recommend the offer for acceptance by the bondholders."

That this offer was well received is shown by the December 18, 1937 issue of the *Economist*, writing under the title "Poland Settles Honourably," when an editorial stated: "The Polish authorities appear to have brought ingenuity and fair-mindedness to the conference table and appear successfully to have avoided any charge of discrimination. . . . In these circumstances, the terms of the new offer appear to be reasonable, and bondholders should find no hesitation in accepting them."

The legislative chambers of Poland passed a law on March 29, 1938 whereby all the above terms, accepted by the bondholders, were duly ratified and so entered into force (*Journal of Laws of the Rep. of Poland*, March 31, 1938, No. 21, item 170).

APPENDIX G

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